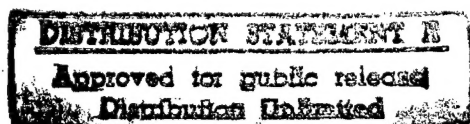


# ***JPRS Report***

## **China**



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## UNITED STATES

### Analysis of America's Post-Cold War Asia Policy

93CM0001A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 14, 23 Jul 92 pp 18-19

[Article by Chu Yuansheng (0443 3293 4141): "New U.S. Asia-Pacific Policy in the Post-Cold War Era"]

[Text] At the end of 1991, U.S. Secretary of State Baker published an important article entitled "America in Asia" in the U.S. FOREIGN AFFAIRS quarterly [Vol 70, No 5 winter 91-92 issue, pp 1-18], spelling out such concepts and ideas as "the Asia-Pacific community," "a fan-shaped structure" and the three policy pillars of the Asia-Pacific community. It is generally acknowledged that the Baker article delineated an outline of the post-Cold War U.S. Asia-Pacific policy, and signaled an important realignment of the entire U.S. Asia-Pacific policy. In general, the concept of an "Asia-Pacific community" set forth by Baker envisions North America as its base and involves a structure that spreads out like a fan with the U.S.-Japan alliance as the central support, and with the spokes connecting the U.S. alliances to the Republic of Korea, the Association of Southeast Asian [ASEAN] countries, and Australia. Connecting the central support and the spokes is the fabric shaped by the Asia-Pacific Economic Cooperation [APEC] process. The three policy pillars of the Asia-Pacific Community are: To establish a framework for economic integration that will support a global trading system; foster the trend toward democratization in the Asia-Pacific region; and define and reorganize an Asia-Pacific regional defense structure.

Analyzed closely, Baker's concepts described above have the following implications:

First, the Asia-Pacific community is a concept of alliance among states, and differs from the European Community in that it is not a formal international organization, but a concept for mutual cooperation. As such, common values and principles are required as a basis for mutual cooperation. In that case, what are the common values and principles of the Asia-Pacific community? Baker clearly pointed out in the article that the common values are the U.S. espoused political democracy and economic liberalization. These principles are basic to the U.S. domestic political and economic systems, and constitute the main content of the U.S. advocated new world order. It is clear therefore that the U.S. intends to apply and propagate its domestic system in the Asia-Pacific region, and to use the Asia-Pacific community as a test of the U.S. strategy to establish a new order throughout the world.

Second, the Asia-Pacific community has its base in North America, and with the alliances the U.S. maintains with Asia-Pacific countries serves the spokes of a fan-shape structure. This means that the nucleus of the Asia-Pacific community is the U.S. itself, and that U.S. prosperity is the driving force for the prosperity of the

Asia-Pacific region. Countries in the Western Pacific, therefore, cannot break away from the U.S. to grow and develop on their own.

Third, the basic organizational structure and cooperation format in the Asia-Pacific community is the Asia-Pacific Economic Cooperation [APEC] process initiated and participated in by the U.S. Baker wrote in the article: "We see APEC as an important mechanism for sustaining market-oriented growth, advancing global and regional trade liberalization, and meeting the new challenges of interdependence."

From this, we can see that in the post-Cold War era, the fundamental principles of the U.S. Asia-Pacific policy have not changed, and that the U.S. still considers its primary objectives gaining access to the Asian market and preventing any anti-U.S. country or group of countries from developing in Asia. In other words, the U.S. still seeks a hegemonic position in the Asia-Pacific region. That being the case, what is new about the new post-Cold War U.S. Asia-Pacific policy? Analyzing Baker's article and President Bush's visit to four Asian countries, we can see new changes in the U.S. Asia-Pacific policy in the following four areas:

First, the new U.S. Asia-Pacific policy emphasizes the importance of economic factors in international relations, and correspondingly cuts down reliance on military measures. Baker put economic integration as the first of the three policy pillars of the Asia-Pacific community, and considered the APEC process the most important form of cooperation in the Asian-Pacific community. In the Asia trip Bush took at the end of last year and beginning of this year, economic issues were on top of his agenda, and Asian countries were urged to open their markets to the U.S. The substantive shift of U.S. policy in this area reflects the new characteristics of the increasingly intense world economic competition in the post-Cold War era, the regional focus and integration of international trade, and the importance the U.S. attaches to economic relationships it maintains with Asia-Pacific countries. At present, the Asia-Pacific region is the U.S. largest trading partner, with two-way trade totalling 310 billion dollar, or one-third more than the U.S. trade with Europe. Without U.S. economic ties to the Asia-Pacific region, it would be impossible for the U.S. to compete as an equal with an increasingly unified Europe. Within the Asia-Pacific region, the U.S. is in danger of losing its traditional economic leadership which has come under serious challenge by Japan. Having expended a great deal of its economic strength in the Cold War, the U.S. is perforce putting economic competitiveness at the top of its foreign policy agenda.

Second, the new Asia-Pacific policy involves issues of realigning the regional security structure and changing the U.S. role in regional security. During the Cold War, the U.S. emphasized establishment of anti-Soviet alliances, and played a role mainly as the leader of anti-Soviet alliances. Now that the Cold War has ended and

the Soviet Union dissolved, "the possibility of super-power conflict in the Asia-Pacific region has reached a historical low point," while limited conflicts in the region have become the main threat. The U.S. therefore suggested that henceforth its security role in the Asia-Pacific region be changed from that of leading an anti-Soviet alliance to one aimed at preserving stability in the region. In Baker's words, the U.S. defense rationale is "to provide geopolitical balance, to be an honest broker, and to reassure against uncertainty." Because of this rationale, the U.S. will continue to maintain a certain military presence in the Asia-Pacific region. In terms of relationships with its allies, the U.S. will strengthen ties with traditional allies such as Japan and South Korea; the U.S. considers U.S.-Japan relations as "the keystone of our engagement in East Asia and Pacific," the U.S.-South Korea relations as "another pillar of our engagement in the Pacific" region, the U.S.-ASEAN relations as "the core of our engagement in this dynamic subregion," and the U.S.-Australia relations as the southern "anchor" linking the U.S. to that part of the Pacific region. In the South Asia subcontinent, the U.S. is accelerating the establishment of certain strategic ties with India, and is taking a strong and uncompromising attitude toward Pakistan, which reflects the fact that as the Soviet influence is withdrawn from South Asia, the U.S. has come to view Pakistan's strength as an important threat to U.S. interests. With the end of the bi-level defense structure and the corresponding decline in U.S. power, the U.S. is giving increased emphasis to establishing a certain collective security system in the Asia-Pacific region. This contrasts clearly with the past when U.S. emphasized and relied on bilateral relationships to handle regional security issues.

Third, the new U.S. Asia-Pacific policy gives new emphasis to establishing partnership with the Asia-Pacific countries, and especially of note is the U.S.-Japan global partnership. During the Cold War years, the U.S. relied on its own absolute supremacy in the region to look after its own interests among allies in the Asia-Pacific region. But today, the economic strength of some of these Asia-Pacific countries is far superior compared to the past. Faced with such circumstances, the U.S., although still seeking to strengthen its leadership role in the Asia-Pacific region, is calling for the strengthening of cooperation with its traditional allies in the region. For example, at the beginning of this year on his Japan visit, Bush and the Japanese side published the "Tokyo Declaration" which elevated the Japan-U.S. relationship to a global partnership and emphasized the need for the two countries to strengthen cooperation not only in the entire Asia-Pacific region but also globally as well. The U.S. is also calling for transforming the U.S.-South Korea relationship from a military alliance "into a more equal political, defense and economic partnership." While the U.S. emphasis on partnership with the Asia-Pacific countries reflects a corresponding decline in U.S. power,

it nevertheless enables the U.S. to control these countries, for partnership is the means by which money as well as effort of these countries will be used by the U.S. to shape the new world order. In this connection, the changing U.S. policy toward Japan should be examined closely. Because of the dissolution of the Soviet Union and the current setback in the Sino-U.S. relations, Japan's position in the U.S. Asia-Pacific policy has become elevated. The U.S. hopes that Japan will exercise its economic power, and also encourages Japan to assume the role of a political power. Henceforth, the extent of U.S. reliance on Japan will continue to increase not only in the Asia-Pacific region but also in terms of world affairs. As for Japan developing its military strength, however, the U.S. will keep a prudent attitude, and will not easily allow Japan's military strength developed to the point of threatening the U.S. and other countries in the Asia-Pacific region. From now on, and for a considerable period of time, the major contradiction in the Asia-Pacific region is the U.S.-Japan contradiction, not the Sino-U.S. contradiction. The U.S. will use all measures to make Japan accommodate to or serve the U.S. interests, and there will be no true equality in the "equal partnership."

Although we have some clues regarding the new U.S. Asia-Pacific policy, many people nevertheless doubt that the U.S. can smoothly implement its Asia-Pacific policy. Fundamentally speaking, the new U.S. Asia-Pacific Policy has two basic weaknesses. First, the U.S. is testing its new world order on the experimental ground of the Asia-Pacific region, and the U.S. actions to extend and propagate America's own political and economic systems in the region will inevitably generate adverse reaction and resentment among many countries and peoples in the Asia-Pacific region. Not long ago at the fourth ASEAN summit conference, Malaysia's Prime Minister Mahathir sharply criticized the U.S. policy. He said: "To claim that only a certain system or type of government is correct or just is to display a presumptuous attitude that is arrogant in the extreme. Even a democratic system can cause hardship to many people and it is by no means a panacea." "We do not want anyone to assume the role of policeman." His words represented the sentiments of many Asia-Pacific countries and people. Furthermore, in recent years, the U.S. economy has been in recession, especially since 1991 when the U.S. economy repeatedly slumped as domestic unemployment rate continued to climb. The Democratic Party seizing the opportunity began to attack Bush's domestic and foreign policies, the conservative wing of the Republican Party headed by Buchanan started to criticize Bush, and the isolationist forces in the U.S. again came to the fore. U.S. economic difficulties cannot help but weaken the U.S. Government's ability to carry out its foreign policy. Therefore, it can be said that the new U.S. Asia-Pacific policy in the context of declining U.S. strength has created a sharp contradiction. Whether the U.S. can long maintain a leadership position in Asia, therefore, remains to be seen.



The ending of the bi-level defense structure in the Asia-Pacific region and the strengthening of the U.S.-Japan relationship have an unfavorable impact on China. China once again has become the target of the U.S. Asia-Pacific policy, and the political and economic pressures on China are increasing. Nevertheless, it is impossible for the U.S. to try to thoroughly isolate or encircle China. The Bush administration recognizes that to continue to maintain contacts with China is the only correct approach to managing its relationship with China. At present, the U.S. still needs China to solve

many of the Asia-Pacific and global issues. From a longer-range perspective, the U.S. also cannot leave China out in its competition with Japan in the Asia-Pacific region. China and the U.S. still have certain common interests with respect to stabilizing the Asia-Pacific security situation and developing economic relationships in the Asia-Pacific region. Based on these common points, the Sino-U.S. relationship should certainly come out of the valley through contacts and negotiations, and once again proceed on a stable course of development.

## NATIONAL AFFAIRS, POLICY

**Control of Excessive Personal Income Growth Urged**

93CE0053A Chongqing GAIGE [REFORM] in Chinese  
No 5, 20 Sep 92 pp 93-97

[Article by Zhou Fuxiang (0719 1381 4382): "Correctly Assess Changes in Pattern of National Income Distribution"]

[Text] There are indeed some differences of opinion in the theoretical community and departments actually working in the field regarding the analysis of changes in the pattern of national income distribution. Some comrades consider the present pattern of national income

distribution rational. I beg to disagree. Let me offer some of my ideas as well as my analysis of certain viewpoints.

**I. Personal Bias Trend in National Income Distribution and Its Characteristics**

After more than a decade of economic structural reform and adjustments to the distribution policy, the pattern of national income distribution in China has shifted notably. Whether we use statistics from the State Statistical Bureau or calculations by the Ministry of Finance and the State Planning Commission, the trend is clear. Among the three parties—the state, collectives (enterprises), and individuals, the share of the state has dropped sharply, the share of collectives (enterprises) has changed little or risen slightly, while that of the individual has risen steeply. (See table below.)

Comparison of Data From Several Departments (%)

Department	Year	State Income	Collective Income	Individual Income
State Statistical Bureau	1978	31.6	19.1	49.3
	1990	14.5	23.8	61.7
Ministry of Finance	1978	32.8	9.9	57.3
	1990	19.2	11.2	72.6
State Planning Commission	1978	21.7	30.7	47.6
	1990	14.0	17.4	68.6

Note: The State Statistical Bureau and State Planning Commission define national income broadly, namely the gross value of national output. The Ministry of Finance, on the other hand, has a narrower interpretation. Data were culled from writings by Comrade Zheng Jingping [6774 0079 1627] of the Comprehensive Office, State Statistical Bureau; Comrade Liu Shangxi [0491 1424 1585] of the Scientific Research Institute, Ministry of Finance; and Comrades Zheng Lianming [6774 1670 2494] and Bao Feng [7637 2800] of the Policy Research Office, State Planning Commission.

It is clear from the table that the agencies used different statistical methods and criteria, and came up with very different numbers. Interestingly though, their data all point up one trend, that is, individual income accounted for a growing share of the final national income distribution, up from 49.3-57.3 percent in 1978 to 61.7-72.6 percent in 1990, an increase of between 12 and 19 percentage points in just 12 years, a substantial gain. But the increase has varied greatly from year to year, probably reflective of objective realities. In a linear analysis, the most radical changes in national income distribution took place before 1985 when personal income shot up. In the latter half of the Seventh Five-Year Plan, the state sought to adjust the distribution relations among the three parties equitably and raise the "two proportions" as appropriate, so the trend toward personal bias lost momentum. Even then the share of the state continued to decline while that of the individual kept climbing; policy adjustments did not produce the anticipated results. Now let us analyze the process of distribution, that is, the initial distribution and redistribution. Because the state has adjusted initial distribution, conceding some distribution rights to enterprises and individuals, and because of the development of a variety of economies and the diversification of distribution methods, the share of the individual in initial distribution has risen sharply. According to calculations by the

Ministry of Finance, the share of individual income in initial distribution grew 17 percentage points in these 12 years. In other words, the change in the share of individual income mainly occurred in initial distribution. In the latter half of the Seventh Five-Year Plan, the state took some steps to adjust redistribution, stepping up tax regulation and increasing transfer income. Nevertheless, individual income continued to grow appreciably at the expense of state income and collective (enterprise) income. Policy measures again failed to produce the desired results.

There are two other striking features about the personal bias in national income distribution in China.

One, the personal bias has primarily favored urban residents. Before 1984, peasants' incomes grew more rapidly and the urban-rural income gap narrowed. After 1984, as agricultural output stagnated, the growth in peasants' incomes slackened overall despite the explosive expansion of township and town enterprises. In some years real incomes among peasants actually fell. At the same time, urban household incomes grew briskly, thus again widening the urban-rural income gap. In 1990, the ratio between per capita living expenses among urban households and its rural counterpart was 1:0.45, not much different from the 1980 figure of 1:0.44 but lower than that for 1984, which was 1:0.58.

Two, the emergence of a high-income stratum which has accumulated considerable wealth. According to many representative surveys, a high income stratum consisting of high-income residents has indeed appeared in China. If we use the Gini coefficient commonly used in the world to measure the equity of income distribution, there is no significant income gap among urban households. However, if we examine data relating to bank savings and cash on hand, it is clear that the bulk of financial assets is held by a small number of high-income people. According to figures culled from statistical surveys by the State Statistical Bureau in 1990, high-income households consisted of 17.5 percent of all households but accounted for 55.2 percent of the net increase in total savings for that year. Individual industrial and commercial households accounted for 26 percent of all savings deposits in banks. According to data from the People's Bank of China, individual industrial and commercial households held 60.2 percent of all cash in hand. Needless to say, these figures are not necessarily accurate, but even then we can see what the broad trend has been, which is that although the incomes of ordinary citizens have been rising rapidly, they manage to stash away little monetary assets after spending more to cover immediate living expenses. A large amount of social financial assets is concentrated in the hands of a few people.

As we all know, the relations of distribution and the mode of distribution are determined by the relations of production and the mode of production. The formation of and changes in the current pattern of national income distribution are the result of the prevailing economic system and operating mechanism. That there exists such a pattern now does not mean that it is inherently rational. We must analyze and evaluate it by seeking truth from facts.

## II. Critique of the Rationality of Income Distribution Pattern

Is the current income distribution pattern rational? People have different opinions on this matter. While there is basic agreement about the interpretation of the existing pattern of income distribution, people become diametrically opposed to one another regarding its rationality. The disagreement is not about bias but its "excessiveness." People differ not in the interpretation of the distribution structure but in its overall assessment.

What are the criteria for measuring rationality? Highly dissimilar yardsticks have been put forward. In my opinion, there are two objective criteria for measuring the rationality of the income distribution pattern from the viewpoint of macroeconomic theory and statistical methodology.

1) Personal income growth should be slower than the growth in national income. This is a basic criterion used in macroeconomics to analyze the relations between personal income growth and economic growth. Undeniably personal income must be allowed to grow fairly rapidly for a considerable period of time during the era

of reform to correct the pattern of overly centralized distribution of the past. Under no circumstances, however, can we allow personal income to grow significantly faster than the economy on a long-term basis. Personal income consists of two parts: monetary income and in-kind income. Because of the difficulty in gathering data, we have to confine our analysis to monetary income for now. In the 12 years between 1979 and 1990, the nominal monetary income of urban and rural households nationwide grew 17.2 percent annually on the average, 3 percentage points higher than the 14.2 percent at which the GNP expanded annually on the average during the same period (in constant prices). Analyzed by period, the gap between the growth rates of personal income and the economy was considerable during the Sixth Five-Year Plan when the gain in personal income exceeded that of GNP by 3.7 percentage points each year on the average. During the Seventh Five-Year Plan, personal monetary income growth outpaced GNP growth marginally, by a mere 0.4 percent. Considering that peasants' income growth was sluggish during the Seventh Five-Year Plan, what we should focus on is urban households. According to statistics, the monetary income of urban residents during the Seventh Five-Year Plan grew 4.12 percent faster than the GNP, the ratio between the two being 1:1.27. It may be argued that the monetary income of urban households had to play "catch up" before the Sixth Five-Year Plan. However, the kind of growth that occurred in the Seventh Five-Year Plan cannot but be regarded as "excessive." Moreover, the rate of growth fluctuated sharply from year to year.

2) The income growth of workers should be smaller than that of their contribution to society. This criterion too is universally accepted. In theory, when production becomes more advanced, the necessary product allocated to workers will decline as a proportion of the social material wealth created by workers, while the share of surplus product contributed to society and enterprises will increase. Otherwise enterprise and state accumulation will inevitably be affected. During the Seventh Five-Year Plan, many Chinese enterprises began to link workers' wages to the amount of profits and taxes realized (or the amount of profits and taxes paid to the government). The objective was precisely to tie economic interests closely to the system of economic responsibility. The theory was: Give enterprises more autonomy in internal distribution, but also make them practice self-discipline in distribution. What then was the trend during the Seventh Five-Year Plan? According to statistics, in enterprises owned by the whole people, workers' wages accounted for a steadily rising share of net output value, while the amount of profits and taxes generated by every 100 yuan in wages declined equally steadily. This shows that even as enterprises were given additional autonomy in distribution, they created no mechanism for self-discipline. Wages have failed to boost profitability.

By the two criteria mentioned above, the present pattern of income distribution clearly cannot be described as

"rational" or "appropriate." Compared to the wealth and profits it generated, personal income indeed has been growing too fast.

Comrades who think differently often use other yardsticks to render a judgment. It is necessary that we discuss some of the more popular criteria and arrive at a consensus.

1) Wages as a proportion of national income. Today there is a consensus that extra-wage incomes have increased too fast, but opinion is sharply divided on whether wages have been increasing at an appropriate pace. According to data in the *China Statistical Yearbook* compiled by the State Statistical Bureau, the rate of wage increase was just right relative to the growth in national income. In my opinion, though, the statistical method used in the book is not scientific. One obvious flaw is that the two values, namely workers' wages and national income, cover different things. National income refers to the value newly created by the five major material production sectors—agriculture, industry, construction, transportation, and commerce—within a given period of time. Workers' wages, on the other hand, does not include the earnings of peasants or of the workers of township and town enterprises. The scope of one differs from that of the other. During the Seventh Five-Year Plan, China's township and town enterprises experienced an explosive growth, expanding at a rate markedly higher than that of enterprises owned by the whole people. In 1985, township and town enterprises accounted for 16.5 percent of all social output value. By 1990, that figure had soared to 25.2 percent. If the income created by township and town enterprises is excluded from national income as a whole (what I refer to as national income II) and is then compared to total workers' wages, from which the earnings of township and town enterprise workers are similarly excluded, the result would be totally different. This is what *China Statistical Yearbook* has to say about the national income (or what I call national income I) relative to total workers' wages. During the Seventh Five-Year Plan, the ratio between the growth rate of national income I and that of total wages was 1:0.69. Wages grew more slowly than national income, the yearbook says, and the relations between the two were proper. If we use national income II instead of national income I, the ratio would be 1:1.86. With wages rising much faster than national income, the relations between the two were inappropriate. Furthermore, let us look at wages as a share of national income. According to the *China Statistical Yearbook*, total workers' wages accounted for between 19 and 20 percent of national income throughout the Seventh Five-Year Plan, not grossly out of line. But if we exclude agriculture and township and town enterprises from national income, then total workers' wages swallowed up 39 percent of national income in 1985, 42.4 percent in 1986, and 45.4 percent in 1990. Clearly wages have shot up as a share of national income, having risen 5.6 percentage points between 1985 and 1990. The growth in wages was inappropriate relative to that in

national income. As we noted earlier, in industrial enterprises owned by the whole people, wages constituted a steadily rising share of net output value even as the amount of profits and taxes generated by wages declined steadily. That too confirms that the rise in wages has not been accompanied by a corresponding gain in profits.

2) Proportionate relations between accumulation and consumption. The ratio between accumulation and consumption is computed based on the amount of the national income that is used. The difference between the amount of national income spent and the amount of output is the difference between imports and exports. For this reason this indicator cannot be used directly to analyze the appropriateness or otherwise of the pattern of national income distribution. During the Seventh Five-Year Plan, China continued to keep its accumulation rate at a high level, thanks in large part to an infusion of foreign capital. Another reason is that working capital has been accumulating fairly rapidly in recent years. During the drive to improve the economic climate and rectify the economic order, the rate of investment in fixed assets headed down and there were large inventories of unsold manufactured goods, a major reason behind the sharp increase in working capital. Itself the negative outcome of the thoughtless pursuit of economic growth, the rapid accumulation of working capital masqueraded an effective loss in revenue as a gain, causing enterprises' debts and hidden losses to mount by the day. According to estimates by the Ministry of Finance, enterprises have run up debts and hidden losses to the tune of 150 billion yuan. If government revenues and enterprise earnings are used to offset these debts and hidden losses, the actual income of the state and enterprises would be even less. Through savings or by directly making short-term loans, personal income has been converted into accumulation. No doubt such accumulation has indeed been highly effective in putting an end to the practice of government making free grants, in enhancing investment responsibility, and in increasing the effectiveness with which funds are used. But it is no criterion for determining the rationality of the pattern of national income distribution. Two basic facts must not be overlooked. First, enterprises have limited capacity for raising capital on their own. One principal objective of structural reform was to strengthen the enterprises' economic vitality and their capacity for self-development. Yet the fact is that a considerable number of enterprises these days not only depend on bank loans as their fixed assets investment but also turn to the banks more and more often even for working capital. Self working capital has diminished in relative importance. In the textile industry, for instance, self working capital made up 21.9 percent of all working capital in 1989, down from 43.3 percent in 1981. Increasingly enterprises are living off their old capital stock. Because of their low depreciation rate and the fact that depreciation is calculated based on primitive value, it is estimated that between 30 and 50 billion yuan in depreciation are not taken each year. In theory this sum of money should stay in the enterprises to pay for



technological transformation and buy new equipment. Now what is happening is that a large part of it becomes retained profit and is handed out to individuals. Second, the state budget deficit has been growing steadily amid mounting difficulties. The Ministry of Finance has gotten to a point where it cannot afford construction. Among fixed assets investment, the share of budgeted investment fell from 23.88 percent in 1983 to a mere 8.7 percent in 1990, a small proportion. Even in the case of projects in the primary industries, including transportation, communications, energy, raw materials, agriculture, forestry, irrigation, and urban public facilities, for which funds cannot be raised on the market exclusively, the share of budgeted investment amounts to just 11.5 percent, the bulk coming from bank loans and self-raised funds, not the government coffers. On the one hand, this testifies to the remarkable progress in investment reform in China; fund-raising methods have changed considerably. On the other hand, we cannot but see that due to limited fiscal resources, the government is increasingly hard pressed to live up to its role as a provider of social security, not to mention satisfying the ever-growing demand for funds by the basic industries. The basic industries have a huge appetite for investment funds. Their projects have a long lead time, and with their limited ability to pay off a loan, cannot afford the high interest rates on loans and bonds. So their development is lagging badly. Therefore I believe unified planning with due consideration for all three parties concerned, the state, collectives, and individuals, is necessary if we are to adjust the pattern of income distribution. As far as social accumulation is concerned, the pattern of distribution must be such that it is conducive to mobilizing the individual's enthusiasm for production and increasing his accumulated assets, at the same time enhancing the enterprises' capacity for self-accumulation and strengthening the state's necessary macroeconomic regulatory and control power. We must not be concerned only with the accumulation of personal wealth and undermine the capacity of the latter two for accumulation; that would militate against the sustained, steady, and balanced growth of the economy.

3) Criteria for assessing productive forces. There is absolutely no doubt that the rate of development of productive forces is the only yardstick for determining how successfully relations of production and mode of production have been transformed. In assessing income distribution, three points must be made clear.

First, in calling for the adjustment of the income distribution pattern, one is not categorically denying the desirability of the changes in the pattern of income distribution. The starting point of economic structural reform in China was "delegating power and sharing profits." The idea was to inspire the enthusiasm for production of the localities, enterprises, and individuals by adjusting interest relations. The personal bias in income distribution, it may be noted, is inherent in structural reform. Practice proves that the adjustment of the income distribution pattern has helped revitalize the

economy, widen the citizens' range of consumption, provide society with savings accumulation, change investment mechanism, and develop the financial market, among other things. The question is excessiveness. When we say excessiveness, we are not saying personal bias is wrong, only that it has gone too far. To adjust the pattern of distribution is precisely to turn what is "excessive" distribution into "appropriate" distribution. Not for a minute are we calling for a return to the distribution pattern under the old order. Nor is that possible in reality. The creation of normal mechanisms for growth, restraint, regulation, and supervision in income distribution through adjustment will be most conducive to the rapid expansion of productive forces.

Second, as far as the adjustment of the distribution relations among the three parties is concerned, a stronger personal bias does not mean better. Instead, what is needed is unified planning with consideration for all parties. A number of principles must be complied with. First, correct the problem of over-centralization in distribution, at the same time preserving the macroeconomic regulatory and control capability of the state, particularly in the area of distribution, in the interest of social justice. Second, the adjustment of the distribution relations should concentrate on enhancing the enterprises' distribution ability. Third, the growth in personal income must be based on steady gains in productivity and improvements in economic results. The Chinese economy experienced its most rapid growth in the 1980's. During the same decade the people's living standard also enjoyed its steepest climb. But it is an undeniable fact that income growth was excessive. During the times when the economy was overheated, income growth overtook the rise in profitability. In conjunction with an overly high accumulation rate, a string of budget deficits, and an inflated money supply, this led to runaway inflation. The government was then forced to launch a drive to improve the economic climate and rectify the economic order. Currency devaluation was an involuntary adjustment to excessively rapid income growth. Had the government failed to take the initiative to adopt corrective measures, the country would inevitably have experienced the kind of vicious circle that has occurred in some countries: excessively rapid income growth—inflation—excessively rapid income growth. The inflationary strategy to stimulate economic development has nothing to recommend itself.

Third, profitability is the criterion for measuring the appropriateness of income distribution.

Two criteria for measuring the overall rationality of income distribution were discussed above. In the final analysis, it all boiled down to economic results. Personal income growth based on better macroeconomic economic results is justified, otherwise it is not justified. This is the fundamental principle of macroeconomic analysis. What stood out about the transformation of China's income distribution pattern in the 1980's was the substantial changes in the three parties' shares. Such



changes mirrored frequent adjustments by the government and were not a function of economic results alone. In a country-by-country comparison, there are significant variations in terms of the magnitude of the share of each of the three parties. In some countries, the personal share is very high; in others, it is much lower. One feature, though, is common to all: the ratio among the three remains highly constant over a long period of time and varies little from year to year. In China in the past dozen years or so, however, there were constant fluctuations in what the three parties got relative to the others, with personal income maintaining an upward trend throughout. Broadly speaking, there were three or four periods when fluctuations were at their sharpest. First, the share of personal income increased rapidly in the early 1980's compared to 1978. Second, personal income experienced another growth spurt around 1984 compared to the preceding two years. Third, 1986 and 1989 also saw significant gains in personal income proportionately. In just a dozen years, income distribution among the three parties fluctuated frequently, which seldom happens in other countries. Undeniably this has something to do with economic structural changes. Seizing on this fact, some comrades have linked changes in the income distribution pattern to the rate of production expansion, claiming that the years in which the income distribution pattern shifted most radically were the very same years when the economy expanded the fastest. Further research, I believe, is needed to determine whether or not this analytical method and conclusion are scientific and valid. I do not propose to go into it at length here.

### **Current State of Economy, Price Trends Analyzed**

93CE0040B Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 8, 17 Aug 92 pp 5-9

[Article by Dai Guanlai (2071 0385 0171) and Ge Jianying (5514 1696 3602): "The Current Macroeconomic Situation and Trends"]

#### **[Text] I. The Macroeconomic and Price Situation in 1992**

This year the pace of reform, opening to the outside world, and economic development have accelerated markedly. Between January and June industrial GNP nationally increased 18.2 percent over the same period in 1991; total commodity retail sales increased 14 percent; and investment in fixed assets owned by the whole people increased 32.9 percent in a 4.8, 1.2, and 11.5 percentage points faster speed of increase than during the same period in 1991.

The pace of price reform also quickened appreciably, showing up principally in price rises for grain, coal, gasoline, and transportation that had a heavy impact. First was a rise in the procurement and sale price of grain. The procurement price of grain, rose an average 0.04 yuan per 500 grams, and the uniform sale price of the urban residents' grain ration rose an average 0.11 yuan per 500 grams in a 45 percent rise. Second was two

increases in the pit head price of coal under unified central planning, the first rise averaging five yuan per ton and the second averaging 10 yuan per ton (on 1 July 1992). Third was an increase in the amount of crude oil sold at a high price rather than the parity price. This resulted in an actual 31 yuan per ton rise in the ex-refinery price of crude oil, and a rise in the price of some petroleum products as well. The price of natural gas rose 81 yuan per thousand cubic meters. Fourth was a rise in railroad freight transportation prices, the price rising an average .01 yuan per ton kilometer. Water and highway freight transportation prices also rose. The ex-mill price of processed steel products under unified central planning from the eight major iron and steel producing enterprises, including Anshan Steel and Wuhan Steel, was increased to the ex-mill price of processed steel from other iron and steel producing enterprises; the ex-factory prices of copper and zinc produced under plan rose; and the prices of soda ash and caustic soda produced inside and outside plan were merged to a single track, and a state guidance price instituted. At the same time, local governments at every level also raised the prices of some commodities and fees. Housing system reform was carried out to the full, more than half of all large and medium size cities raising house rents. Many cities either raised or removed restrictions on pork prices.

Substantial steps were also taken to transform the price formation mechanism. This took the form of "large area" delegation or removal of price restrictions for a further increase in the percentage of market regulated prices. In the means of production field, restraints were lifted on guidance style plan coal and fixed coal prices, and on prices of potassium hydroxide and 40 kinds of chemical industry products, glass prices under unified central planning, prices of almost all mechanical and electrical products, and prices of some premium quality processed steel products. Except for salt and pharmaceuticals, price restrictions were removed on virtually all industrial consumer goods. Some jurisdictions also experimented with the removal of restraints on grain and edible oil prices. In addition, local governments at all levels further narrowed the scope of state-set prices, expanding the percentage of market-regulated prices. In Jiangsu Province, for instance, the number of goods covered by administered prices decreased from 210 to 20. Estimates based on retail prices of social commodities show a decline from 31.5 to 17.5 percent in the percentage of state-set prices, and a rise in the percentage of market-regulated prices from 68.5 percent in 1991 to 82.5 percent in 1992.

At the same time, great strides were also made in reform of the price administration system. The system was ended whereby price increases for a small number of items whose price the local government controlled had to be reported to the State Council. Authority was delegated or price restraints were lifted on products that the State Council and associated departments controlled. All

provinces, autonomous regions, and directly administered municipalities also removed restraints or raised prices on a number of commodities and fees that local jurisdictions controlled.

Comparison of the 1992 rise in the overall retail price levels nationwide with the same period in 1991 shows a 5.1, 4.9, 5.0, 6.2, 4.1, and 4.2 percent rise for January through June respectively, the average for the first half of the year being 4.9 percent (including 7.9 percent for cities and towns, and 3 percent for rural areas). The rise in the overall price level was attributable largely to planned rises by governments at all levels, and the removal of plan price restraints. This accounted for approximately 3 percentage points, including the lag effect of the removal in 1991 of price restrictions on grain, edible oil, pork, sugar, tobacco, coal, pharmaceuticals, and agricultural means of production. Freed market regulated prices remained steady with a slight rise, prices rising mostly for fresh vegetables, clothing, and packaging materials.

Except for grain and a small number of processed grain products for which prices rose substantially because of state price rises, prices of other consumer goods including meat poultry and eggs, clothing, daily necessities, and fuel remained basically stable. Fresh vegetables showed the greatest price fluctuation. As a result of the weather during the first four months of the year, fresh vegetable prices in southern cities rose approximately 50 percent. The average price of vegetables from January through April nationwide was 22.1 percent higher than during the same period in 1991, causing an approximately 1 percentage point rise in the national price index. During May and June, the increase in vegetable prices receded to a marked degree. Comparison of May with April shows a 33.2 percent decline in fresh vegetable prices in 35 large and medium size cities, and an only 5.2 percent rise nationwide over the same period in 1991.

Prices of the industrial means of production began an upturn, prices of construction materials rising fairly rapidly. Comparison of the period January through June with the same period in 1991 shows a 4.5, 4.3, 4.1, 4.9, 5.8, and 6.8 percent increase respectively in the overall procurement price level for industrial means of production. Sale prices of principal materials during May showed a 7 percent rise over the same period in 1991. This included a between 12 and 18 percent market price rise over the same period in 1991 for processed steel used in construction (6.5 mm wire rods, and 20 mm threaded steel). By late May, wire rods, and threaded steel had become goods in great demand everywhere throughout the country, the market price of wire rods approaching or exceeding 2,000 yuan per ton. During June, the price of wire rods reached 2,150 - 2,250 yuan per ton in Shanghai and Shenyang, and 2,400 yuan per ton in Chongqing, Hangzhou, and Guangzhou. The price of cement and lumber also began to climb. In May the price of No 425 cement was 10 percent higher than during the same period in 1991; and the price of larch rose 23 percent.

Prices of steel products used in production, as well as prices of nonferrous metals such as copper and aluminum remained largely stable, but with some upturn. Because of transportation difficulties, coal accumulated in inventory in producing areas, the price rising in marketing areas. Because of the drop in international market oil prices, market prices of crude oil and refined oil remained stable with some decline, but turned upward just recently. Prices of chemical industry products changed but little, prices of raw materials for plastics continuing to decline.

Except for chemical fertilizer, which rose in price, prices of all other agricultural means of production continued largely stable. Retail prices of agricultural means of production for the period January through June rose 3.2 percent over the same period in 1991.

A markedly accelerated increase in economic development was an outstanding feature of the macroeconomic situation in 1992. Such a fairly high speed growth both differs from the several former rapid rises in China's economic development and also stands in marked contrast to the medium to low speed economic development of recent years. Overall, the speed of economic growth has been high, yet finance and banking as well as markets and prices remain substantially normal. The macroeconomic situation is beginning to enter a stage of new rise, and some new problems are also appearing.

## II. Basic Verdict on the Current Macroeconomic Situation

A considerable difference exists between economic academicians and departments doing economic work about the state of the macroeconomy. The main views are as follows: (1) The belief that the overall economic situation is good, but inflation is a lurking danger. Inflationary pressure is mounting, and vigilance against inflation is a problem that cannot be ignored in current macroeconomic regulation and control. (2) The belief that the main problem in the economy today is insufficient consumption demand, and thus stimulation and guidance of consumption must become a major policy to speed up current economic development. (3) The belief that government macroeconomic regulation is wrong or erratic, giving rise to the current imbalance in the structure of the country's market supply and demand. Reform of the government's macroeconomic regulation and control function is the main task in demolishing the final bastions of the product economy system. (4) The belief that shortages in the former plan economy are increasingly changing into vigorous supply and demand, a buyers market having appeared for some commodities. The national economy's operating mechanism is in the process of undergoing a major change of historical significance. At the same time, some deep-rooted difficulties and contradictions that ordinary methods cannot deal with still exist in economic life that only accelerated reform and opening to the outside world can solve.

I believe that the circumstances favoring fairly rapid development of the country's economy are as follows:

1. China is facing several decades of a fine international environment that presents rare opportunities. Total exports for 1991 increased 162.9 percent over 1985. This included a 75.8, 346.2, and 900 percent increase in total exports of cotton cloth, clothing, and machine tools, showing that China's economy has the potential for meeting international market requirements for both high technology products and labor intensive ones. China's total export trade amounts to only 1.8 percent of the world total (a 1990 figure), but between January and May, Guangxi's border trade was 98 percent greater than during the same period in 1991. This shows the potential that foreign trade holds.

2. The country's financial circumstances can support rapid development. The amount of money in urban and rural savings accounts in China today is more than 1 trillion yuan. Taken together with cash, bonds and stock shares, financial assets total more than 1.6 trillion yuan. During the first half of 1991, bank savings increased more than loans by 112.3 billion yuan. If finance and banking reform can be accelerated, and the mechanism for raising funds improved, sources of capital can be ensured. China's political stability, and basic availability of the economic infrastructure for investment help attract foreign capital. During the first half of 1992, contracts signed with foreign traders for direct investment projects increased 1.6 fold over the same period in 1991; the amount of agreed-upon funds increased 2.2 fold, and the amount of foreign capital actually used increased 95.6 percent.

3. The domestic market is also prepared to support rapid economic development. Despite some softness in the domestic market today, the amount of pent up market demand is enormous. Among the items for which investment will be required is the major century-spanning Chang Jiang Three Gorges project which will soon begin and for which a great investment will be required for power stations, railroads, highways, and for the major transformation of major river water conservancy projects. Economic and educational demand potential is very great in bringing about a change from a standard of living of sufficient food and clothing to a comfortably well-off one. Between January and May 1992, 8.7 billion yuan was invested in the construction of commercial housing. This was 10 percent of the investment in fixed assets owned by the whole people for the same period, and 93.7 percent more than during the same period in 1991. This fully reflects market potential in this regard. China's rural villages are a huge market, but comparison of 1991 with 1988 shows not only no increase in rural retail sales of commodities but rather a decline.

4. Improvement of conditions for agricultural production in the country provide more dependable support for the supply of food to both cities and the countryside. National grain reserves currently total more than 6 billion jin, or a two month supply of grain for the whole

country. Even if natural disasters like those of 1991 occur, the country will still be able to ensure rapid economic development.

5. Both domestic and foreign markets can supply the means of production need to ensure the materials needed for the development of production. Rapid economic growth requires an adequate supply of the means of production. Between January and April 1992, retail sales of materials through the local materials system nationwide increased 33.6 percent over the same period in 1991. Procurement increased 34.8 percent, the increase in procurement exceeding the increase in sales by 1.2 percentage points, and greatly exceeding the increase in domestic production for the same period. One of the main reasons for this situation was expansion of the opening to the outside world, and an increase in foreign exchange reserves that increased ability to purchase means of production on the international market. In mid-May 1992, the country's spot exchange balance totaled \$24.8 billion, up 43.4 percent from the same period in 1991. During the first quarter of 1992, imports of 16 major kinds of materials increased 29 percent over the same period in 1991. This included imports of processed steel for capital construction and rapid economic development that were 56 percent greater than during the same period in 1991.

6. During a period of enormous changes in the system and the structure, the potential that the economy holds will be increasingly released. Reform has emancipated productivity, propelling development of the economy at an unprecedented speed. Between 1979 and 1988, China's GNP increased an average 9.5 percent annually, a historical marvel in the development of the post-war world economy. In the 11 years since founding of the Shenzhen Special Economic Zone, the economy has developed more rapidly, national income increasing at an average 45.4 percent per year. Comparison of the first half of 1992 with the same period in 1991 shows a 27.8, 27.6, 25.5, and 22.1 percent increase respectively in the gross industrial output value of Jiangsu, Zhejiang, Shandong, and Shandong provinces. This also reflects the more rapid upturn in places where reform and opening to the outside world got off to an earlier start. In addition, readjustment of the economic structure will also provide new impetus for economic development. Between 1978 and 1990, the development of China's tertiary industries accounted for only 28 percent of the increase in GNP for the same period, but in Japan, they accounted for 52 percent, and in the United States 71 percent (both for the period 1970 through 1986). Future energetic development of tertiary industries will give new impetus to economic development using existing resources.

7. During the past three years, the real rate of increase in China's consumption and investment have been very low; nascent conditions exist for rapid development. Between 1989 and 1991, the average annual increase in industrial production went down to 10.1 percent from the 17.5 percent of the period 1984 through 1988;

investment in fixed assets in society as a whole fell to 5.5 percent from 25.7 percent; and total retail commodity sales dropped to 8.2 percent from 21.1 percent. This marked trend toward a downturn and retrenchment policies meant that social productivity could not be brought fully to bear. The utilization rate for equipment and raw and processed materials used to produce most industrial consumer goods was only 50 to 70 percent. It was estimated that if resources are used at the same rate as they were used between 1984 and 1988, China could attain an approximately 8 percent annual increase in GNP for 1989 through 1991; however, the actual rate is only 5.8 percent for a more than 2 percentage point shortfall. Therefore, for the next two or three years resources will permit a 7 to 8 percentage point more than ordinary increase in GNP, or an average annual 2 to 3 percentage point greater increase.

On the other hand, the factors limiting faster development of the national economy also cannot be ignored as follows:

Quite a few demand factors continue to limit market sales. Despite the no small potential of the domestic market, translating it into real, effective demand poses certain difficulties. During the first half of 1992, consumer goods retail sales increased 14.4 percent over the same period in 1991, but this increase was essentially a revival of demand. Between 1988 and 1991, social consumer goods sales increased 26.2 percent. After deducting for price factors, the actual amount of increase was 2.8 percent, or less than 1 percent each year. Increase in consumption has been relatively slow during the past several years. In addition to economic retrenchment and fairly high interest and dividends that provide alternatives to consumption, this slow increase in consumption is related to the slowness of the country's residents to change their consumption patterns. A look at differences in consumption of city and rural residents shows the consumption spending of city residents to be mostly for housing, cultural pursuits, and education, but spending on housing requires a sizeable investment of currency (at least around 10,000 yuan). Since rents are fairly low, spending for a house holds little attraction. Spending on culture and education is also limited by the not very well developed tertiary industries and a lack of spare time. Spending by rural residents has entered the stage of household electrical appliance purchases, but market sales cannot increase easily because of the rural electricity shortage, incomplete water supply and sewage systems, and virtually no increase in the peasants real income during the past three years. By area, the increase in market sales is more rapid in coastal areas and relatively slow in inland areas. In the seven provinces and autonomous regions of Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, and Hainan, total social commodity retail sales for April increased 12.2 percent over the same period in 1991. In seven central China provinces, namely Hebei, Shanxi, Anhui, Jiangxi, Henan, Hubei, and Hunan; and in nine provinces and autonomous regions in western China, namely Inner

Mongolia, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, and Xinjiang, however, total social commodity retail sales for April increased 5.9 and 9.9 percent respectively. After deduction for price change factors, the actual amount of increase was very small.

Although market demand for the means of production is fairly brisk, because of defective macroeconomic regulation and control and industrial policies, and an irrational investment structure, shortages of some means of production will continue to worsen; industrial consumer goods will accumulate in inventory, and markets will be slack. Between January and May 1992, the percentage of investment in fixed assets invested in energy fell to 26.3 percent from the 30.7 percent of the same period in 1991. The percentage of investment in the electromechanical industry and the light and textile industries rose to 6 and 9 percent respectively from 5.3 and 8 percent. The amount of investment in technological transformation used to increase the extensive form of output rose from 34.8 to 35.1 percent. Therefore, because of irrationalities in the industrial structure and the product mix, accompanying high speed economic development in 1992 will be a continuation of inventory accumulation, serious losses, difficulties in untangling the chain of debt, and poor economic returns. As of the end of May, 137.2 billion yuan was tied up in the finished manufactures of state-owned industries within budget. This was 24.2 billion more than at the beginning of the year. It is estimated that as much as about 50 billion yuan of the current industrial inventory is abnormal. This shows that the irrationality of the industrial structure and the product mix is very serious, and this will restrict normal increase in investment demand.

The slow development of basic industries and basic facilities such as communications, transportation, and raw and processed materials has become a bottleneck that hurts speedy economic development. The main factor limiting economic development today is transportation. During the first half of the year, freight volume increased 5.4 percent over the same period in 1991. This was only one-fourth the speed of industrial development, and much lower than the normal one-half ratio between the two. During 1992, the railroads were requested to load an average of 190,000 freight cars each day, but 75,000, or only 40 percent, were actually loaded. Traffic rate—the main limitation on transportation—met only 66 percent of need, 13 percentage points less than for the same period in 1991. The limited amount of transportation adversely affected supplies of coal, processed steel, and lumber.

As a result of the joint impact of the foregoing two situations, China's economy entered a new growth period driven by investment demand, but it encountered problems of insufficient consumption demand and a distorted consumption and production structure. In the price field, capital construction investment prices rose faster than for investment in most things; prices of the means of production rose faster than prices of the means



of consumption; and labor prices rose faster than commodities in a pointed reflection of problems existing in the macroeconomy today.

To make full use of favorable factors, surmount or avoid unfavorable factors, accelerate economic development and regulate and control the macroeconomy in the near term, the emphasis must be on the following four matters: The first is to reduce savings and loan interest rates, interest being made to play a role in stimulating consumption appropriately. Second is to hasten the revamping of the investment structure and the consumption structure. Third is consideration of gradual reduction in the number of work days each week or the number of work hours each day to increase after hours consumption. Fourth is appropriate readjustment of the foreign exchange rate to bring it closer to the adjusted price. The currently favorable situation regarding prices should be used to make the investment structure and the production structure more rational, to develop tertiary industries, and to adopt attendant regulation, control, and delegation measures. This will create a better environment for economic development (particularly for basic industries and tertiary industries).

### III. Price Trends During the Second Half of the Year

On the basis of the current state of the macroeconomy, we conclude that retail prices, which have been relatively stable during 1992, will continue this way during the second half of the year, but prices of the means of production will rise further.

The trend of price changes of specific commodities will generally be as follows for the second half of the year:

**1. Prices of grain and other agricultural by-products will be fairly stable.** Since grain supply is plentiful, country fair grain prices are expected to remain basically stable during the second half of the year after having risen moderately during the first half of the year. The price of white wheat in the Zhengzhou wholesale grain market price went back down in June in a 3.5 percent decline between mid-May and mid-June. The price of long-grained nonglutinous rice in the Wuhan wholesale grain market fell 3.6 percent between mid-May and mid-June, and fell another 4.4 percent between late June and mid-July.

No change is likely in either the procurement price of live hogs or the retail price of pork. Throughout the country, the market price of corn today remains fairly low at approximately 0.60 yuan per kilogram. The procurement price for live hogs is approximately 3.20 to 3.30 yuan per kilogram, the ratio between hog and grain prices maintaining the normal 1:5 to 5:5 level. The retail price of pork for the first half of the year was 7.3 percent higher than for the same period in 1991 (in 35 large and medium size cities), largely because some cities removed price controls or raised the price of pork. For example, on 1 May, Wuhan and Chongqing removed price controls on pork; on 11 May, Shanghai raised the price of pork; and Hangzhou and Taiwan removed price controls

on pork on 1 June and 1 July respectively. Zhengzhou, Nanchang, Harbin, Xian, and Nanjing also removed price controls on pork. So long as the procurement price of live hogs remains stable during the second half of the year, the retail price of pork will remain stable.

The rise in fresh vegetable prices may become less than during the first half of the year. During the first half of the year vegetable prices rose substantially, rising approximately 22.1 percent over the same period in 1991 in 35 large and medium size cities. Vegetable prices were high because of the natural disasters of June, July, and August 1991. The rise in vegetable prices during the second half of the year may be less than during the first half of the year.

**2. Prices of industrial consumer goods such as clothing and items used in daily life are likely to be stable.** Price restraints have been lifted on clothing and articles used in daily life that the country's inhabitants consume, the market price level generally reflecting the relationship between supply and demand. Between January and June 1992, clothing prices rose 2.7 percent, and prices of items used in daily life rose 1.4 percent. Prices of recreational items fell 4.7 percent, prices remaining basically stable overall. This situation will probably continue during the second half of the year.

**3. Trend toward rise in fuel for civilian use and in construction and packing materials.** Rise in the price of pit head coal will mean a rise in the price of fuel for civilian use. As a result of housing system reform and readjustment of the consumption structure, retail sales of building materials and packing materials have been fairly brisk. Between January and June 1992, prices of building materials nationwide rose 3.2 percent, up more than 2 percentage points from the rise (0.8 percent) in 1991. The trend will be toward more rise during the last half of the year.

**4. Continued rise in prices of the means of production.** Because of the greater investment in fixed assets and increase in peasant agricultural inputs, as well as the future rise in prices of transportation and chemical fertilizer, prices of the means of industrial and agricultural production will continue to rise.

In addition, because of the rapid development of the economy, foreign exchange adjustment prices may continue to rise. In early June 1991, the foreign exchange adjustment price of \$1 rose to 6.35 from 5.80 yuan at the beginning of the year in a 10.8 percent rise. The trend toward rise will continue during the second half of the year.

Overall, even though the state will continue to pursue price adjustments for a small number of items that support basic industries and tertiary industries, the degree of increase in the overall retail price level may be higher than during the first half of the year; however, the average price year for the year as a whole will remain at about 6 percent because of the consumption lag.



**Capital Iron, Steel Model for Enterprise Reform**  
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GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 8, 23 Aug 92 pp 7-11, 21

[Article by Zhang Xuanguo (1728 6693 0948), Liu Puquan (0491 3184 3123), and Yang Qing (2799 7230): "The Capital Iron and Steel Mystery"]

[Text] Editor's Note: The reform achievements of the Capital Iron and Steel Complex during the past decade and more are a matter of public knowledge, yet Capital Iron and Steel's basic experience in reform is like a mystery that has never been solved. What is the secret of Capital Iron and Steel's success? Why can't Capital Iron and Steel's experiences be applied elsewhere? Can Capital Iron and Steel's contract system ensure increased fiscal revenues? This article provides answers to this series of endlessly controversial questions. Whether the authors' views are objective and evenhanded are matters that readers can judge for themselves after reading the article. [end editor's note]

The enormous changes that have taken place at the Capital Iron and Steel Corporation since reform have astonished the world, but one puzzling matter is the different evaluation given Capital Iron and Steel's reform experiences; and Capital Iron and Steel's experiences in reform have also been slow to spread to other enterprises in the country. Solution to this "mystery" may provide some beneficial insight into how to improve the operation of large and medium size state-owned enterprises.

**Astonishing Changes**

The Capital Iron and Steel Corporation, which was formerly called the Shijingshan Iron and Steel works, was founded in 1919. During the 30 years prior to liberation it produced only 286,000 tons of pig iron. Between liberation and the beginning of reform, Capital Iron and Steel advanced greatly; nevertheless, because of a lack of vitality in the concern's operating mechanism, the zeal of staff members and workers could not be expressed to the full. Productivity did not develop rapidly; iron and steel production capacity was not coordinated; equipment was antiquated and technology backward; and the complex occupied last place among the country's "eight large steel mills" in production efficiency and economic returns.

Following the Third Plenary Session of the 11th Party Central Committee, Capital Iron and Steel was first to institute the contract system, becoming a pilot project in nationwide economic system reform. This enabled Capital Iron and Steel to develop at high speed. Output of steel and steel products rose from 1.79 million and 1.17 million tons respectively in 1978 to 4.91 million tons and 4.31 million tons in 1991, amounts equivalent to the output of an additional large iron and steel complex producing 3 million tons a year, making it the fastest growing enterprise in the country. During the 10 year

period 1979 through 1988, Capital Iron and Steel's profits increased by an average 20 percent each year. Despite a poor business climate in which its profits fell by as much as 400 million to 500 million yuan each year, Capital Iron and Steel's profits still increased by an average 13.5 percent annually. Its 2.36 billion yuan profit in 1991 was 7.89 times the 299 million yuan of 1978, surpassing the average doubling of the speed of growth since 1953 of the world's 500 major enterprises.

Thanks to the efforts of the rank and file of staff members and workers, Capital Iron and Steel has developed into a large trans-regional, trans-industrial, and trans-national enterprise. Today, the Capital Iron and Steel Complex has seven major corporations, 103 industrial plants, and 200,000 staff members and workers. In addition to its main iron and steel producing business, it also operates 14 other concerns including mines, machinery, electronics, construction, food, tourism, and shipping businesses. Most of its principal sintering, iron-smelting, steel-smelting, and steel rolling equipment has been modernized. Capital Iron and Steel ranks first in more than 30 of 55 different comparable economics of technology norms in the metallurgy industry nationwide. It ranks at the world advanced level in grade of concentrate, furnace input coke ratio, blast furnace utilization coefficient, and comparable amount of energy consumption per ton of steel.

On 22 May, the architect of China's reform, Comrade Deng Xiaoping, inspected Capital Iron and Steel. He sanctioned Capital Iron and Steel's experience with reform, agreeing that the orientation was correct, and that the road that the complex was following was a good one. Recently, Capital Iron and Steel formulated its newest development goals. During the Eighth Five-Year Plan, it wants to make the complex an internationally first-rate trans-national corporation, entering the ranks of the world's top 500 enterprises.

To achieve the foregoing objective, Capital Iron and Steel plans vigorous development of its iron and steel industry, steel output reaching 10 million tons in 1994, making it China's foremost 10 million ton category iron and steel industry, and putting it among the world's top 10 iron and steel industries. In addition, in cooperation with Shandong Province, it will build the Jilu Iron and Steel Mill having an annual output of between 5 million and 1 billion tons, and which will have a steel output of upwards of 2 billion tons by 2000. During this period, Capital Iron and Steel will open iron mines outside China, and develop a transportation fleet to serve its iron and steel production needs. It will construct ports and build coal mines in China, will help Guangdong Province build a between 3 and 5 million ton iron and steel mill at Zhanjiang, and will build iron and steel plants as joint ventures or cooperative ventures using exports of complete plants to southeast Asian countries and territories. In addition, Capital Iron and Steel will put to use its aggregate development strength in the further development of machinery and electronics industries, steadily expanding the scale of its operations to make Capital

Iron and Steel a multiple-business, externally oriented, large, trans-national corporation having great strength that is able to make a greater contribution to the national economy.

#### **Basic Experiences in the Reform of Capital Iron and Steel**

Capital Iron and Steel has substantial experience in reform. Its primary experience has been in making full use of the spirit of staff members and workers as masters in their own house to emancipate and develop productivity while upholding the system of ownership by the whole people. To quote the words of Capital Iron and Steel itself, this is "contracting as a basis" for making "the people as the basis." "Contracting as a basis" means working out the relationship between the state and the enterprise, "the people as the basis" means working out the relationship of staff members and workers to the enterprise. Capital Iron and Steel has worked out these two relationships rather well, thereby demonstrating the superiority of socialism.

The biggest sticking point in enterprise reform is maintaining the enterprise's character of ownership by the whole people, while also enabling every staff member and work to feel genuinely that he or she is a master, using this attitude of being master consciously in performing creative labor. In the course of more than a decade of practice in reform, Capital Iron and Steel has boldly explored and accumulated numerous successful experiences, principal of which are the following:

#### *Reform of the Relationship Between the State and the Enterprise To Enliven Enterprises*

In reforming the relationships between the enterprise and the state, Capital Iron and Steel instituted the contract system, the main substance of which is as follows: First was the contracting to turn over to the state profits increasing by 7.2 percent each year, guaranteeing the base figure, ensuring payment, retaining all profits in excess of the amounts to be paid the state, making up all payment shortfalls, and the state making no further investment in Capital Iron and Steel. Second was a 6:2:2 ratio of the enterprise's retained profits for use in development of production, for collective welfare, and for wages and bonuses respectively. Third was a 0.8:1 indexed fluctuation in the total wage bill relative to profits realized. Fourth was the right of the enterprise itself to sell 15 percent of the products it produced within plan. Fifth was a fairly long contracting period running from 1981 to 1995. Sixth was contracting by all the personnel. The contracting entities were not just a small number of the enterprise's leaders, but all staff members and workers.

The most important of the six foregoing items is the first. Once payment of profits was guaranteed, Capital Iron and Steel kept all remaining earnings, itself made up all payment shortfalls, and the state made no further investment. To maintain sustained growth of economic returns, Capital Iron and Steel will inevitably have to reinvest most of its retained profits in technological

transformation and the expansion of reproduction. Furthermore, since the material benefits of every staff member and worker, as well as the enterprise's economic returns are linked to long-term development, it behooves all staff members and workers to contribute to the increase in the enterprises' economic returns. Thus, a self-encouraging, self-regulating, and self-restricting enterprise mechanism has taken shape at Capital Iron and Steel.

The source of increase in returns to the state, to the enterprise, and to the staff members and workers lies in sustained increase in returns that the enterprise created. Consequently, Capital Iron and Steel feels that the key to reform of the relationship between the state and the enterprise lies in invigorating the enterprise. Invigorating the enterprise means encouraging the enterprise to withhold a certain amount of flexible financial resources from its excess returns to put back into the enterprise. In other words, it is to leave some reserve strength for the development of productivity. Only with invigoration of the enterprise, development of production, and staff member and worker receipt of tangible benefits that they can see and feel will their enthusiasm be fully expressed and reform become successful.

#### *Building of a Contract System Within the Enterprise, Allotting Responsibilities, Rights, and Benefits to Individuals*

Using the contracting of increases in profits turned over to the government as a basis, and acting in accordance with the principle of linking responsibilities, rights, and benefits, Capital Iron and Steel broke down level by level both the tasks it contracted with the state and the enterprise's own operating goals for assignment to each staff member and worker for the building of an internal contracting system in the enterprise. This was both an extension and an implementation of the enterprises contract with the state, and also a guiding principle for the activities of all staff members and workers.

The basic substance of Capital Iron and Steel's internal contracting included undertaking, guaranteeing, and checking. Undertaking meant each unit and individual fully shouldering the obligations he or she was responsible for doing; guaranteeing meant cooperation and coordination among all units and job positions; and checking meant rigorous checking of the extent of fulfillment of contracted and guaranteed quotas and division of labor responsibilities, and relating this fulfillment to the distribution of benefits, strictly and impartially issuing rewards and punishments.

#### *Reform of the Enterprise Leadership System, Instituting Staff Member and Worker Democratic Management*

In 1986, reform of Capital Iron and Steel's enterprise leadership system began. The basis principle for reform was ensuring that staff members and workers were masters of their own affairs, and that reform was in keeping with the needs of modern large scale production. It also ensured the party's leading role in the enterprise.

As a result of reform, Capital Iron and Steel tried out and established a new kind of enterprise leadership system whereby staff members and workers exercised management, the plant manager provided administrative direction, and the CPC committee exercised political control.

Using reform of the enterprise leadership system as a foundation, Capital Iron and Steel tried out and established a complete democratic management system whereby staff members and workers enjoyed election rights, decision making rights, the right to know about events, the right to hold discussion, the right to supervise, and the right to autonomy in daily life.

The handing over of decision-making authority to the staff members and workers was the key element in democratic management. The major decisions about Capital Iron and Steel included reform measures, long-term development plans, annual plans, how retained profits were to be divided for use, and the drawing up and revision of important rules and regulations. In all cases, these matters were turned over to all the staff members and workers for discussion and were ultimately discussed and decided on by the supreme authority in the enterprise—the staff and workers' representative assembly. When the staff and workers' representative assembly was not in session, these functions were exercised by the plant committee that the staff and workers' representative assembly elected.

#### Reason for Inability To Spread Experiences Elsewhere

Most people acknowledged that Capital Iron and Steel's experiences in reform were good and no fewer than 10,000 people per year came to Capital Iron and Steel to learn. Book after book chronicling Capital Iron and Steel's experiences was published, and appeal after appeal for the spread of Capital Iron and Steel's experience was made, each one louder than the other. But why is it that to this day Capital Iron and Steel's experiences have not spread to other enterprises in China? Reasons adversely affecting the spread of Capital Iron and Steel's experiences are numerous, it is true, but the main reason is failure to reach a unanimous view on the following issues:

##### *1. Can the Capital Iron and Steel contract system ensure increase in national revenue?*

After Capital Iron and Steel contracted an average 7.2 percent rate of increase in profits turned over to the state, the percentage turned over to the national treasury went down, and the percentage that the enterprise retained went up. For this reason, some people feel that the contract system that Capital Iron and Steel implemented cannot ensure an increase in fiscal revenues; thus, the state cannot get the "lion's share," so the system cannot spread. However, those who hold this view do not realize the enormous increase in the absolute amount of fiscal income that the Capital Iron and Steel contract gives the state.

In 1978, Capital Iron and Steel paid 98 percent of all its taxes and profits to the state, but the absolute amount was only 371 million yuan. In 1991, despite a drop to 62 percent in the percentage turned over to the state, the absolute amount was 1.815 billion, or 4.9 times the 1978 amount for an average annual 13 percent increase. Furthermore, from the amount of taxes and profits that Capital Iron and Steel turned over to the state in 1978 was deducted the amount that the state returned to Capital Iron and Steel in investment, so the state actually realized only 189 million. In 1991, however, the 15 billion that went to the state was a firm amount, none of which was returned to Capital Iron and Steel, so this amounted to 9.6 times the 1978 amount, or an average 19 percent annual rate of increase. During the same period, state fiscal revenue increased 9.1 percent annually, and profit and tax payments from the metallurgy industry nationwide averaged a 6.7 percent increase; thus, the rate of increase in Capital Iron and Steel payments of taxes and profits to the state greatly exceeded the average speed of increase of metallurgy industries nationwide. In addition was the fund for the development of production that Capital Iron and Steel withheld from its retained profits, which together with the depreciation fund was used for the plant's technological renovation. Following reform, the fixed assets added over a period of 13 years had a value of 4.2 billion yuan, and these fixed assets still belong to the state. They must be added into the contribution to the state. In 13 years of contracting, Capital Iron and Steel has paid a cumulative 11.48 billion yuan in profits and taxes to the state, plus 4.2 billion yuan in new assets, the state's actual receipts thereby totaling 15.68 billion yuan, or an average 1.206 billion annually. During the 30 years prior to reform, however, the state realized cumulative earnings from Capital Iron and Steel of only 1.557 billion yuan, or an average 52 million yuan per year. The average annual payment of profits and taxes following reform was 23 times the annual average before reform.

Facts show that since institution of the contract system, not only have state fiscal revenues from Capital Iron and Steel not decreased, but on the contrary, the contracting has ensured both an increase in the value of state-owned assets and a sustained big increase in payments to the treasury. The Capital Iron and Steel reforms have benefitted the state, the enterprise, and the enterprise's staff members and workers, and the one that has benefitted most has been the state.

##### *2. Is the total amount of Capital Iron and Steel's accumulations turned over to the state the largest, or is the portion that the enterprise has retained the largest?*

Enlivening an enterprise requires, first, giving the enterprise operating autonomy, and second, giving the enterprise its own money to operate with. This is a rational division of distributions between the state and the enterprise. The general consensus is that operating autonomy was relinquished to Capital Iron and Steel; however, there is a very great divergence of opinion as to whether the enterprise had its own money to operate with. This is

another important reason for the inability to spread Capital Iron and Steel's experiences elsewhere.

Under the prevailing fiscal system in China, upwards of 85 percent of state-owned enterprises' net earnings revert to the national treasury, the enterprise retaining only 10, or at most 15 percent. As a result, enterprises lack the ability to expand reproduction. However, the Capital Iron and Steel contract provides for "full retention of everything in excess of the contracted amount," and a change in the entity doing the investing from the state to the enterprise itself. Consequently, the enterprise does indeed have accumulations of its own, and both self-transformation and self-development capabilities. Since contracting began, Capital Iron and Steel has turned over about 60 percent of its net earnings to the state, the enterprise retaining 40 percent. The facts show that the enterprise has become the main entity in the expansion of reproduction, and that returns have been greater than before reform when the state was the main entity in the expansion of reproduction. Between 1979 and 1990, Capital Iron and Steel invested a total of 4.27 billion yuan in the completion of 4,036 technology transformation and construction projects, 108 of them key projects. The average period of time required to recoup its investment was less than three years; increased profits and taxes amounted to 10.161 billion yuan, and the input-output ratio was 1:2.62, meaning that 1 yuan of investment brought 2.62 yuan of net income. However, as of 1989, cumulative investment of all the nation's enterprises under ownership of the whole people amounted to 1.1362 trillion yuan; cumulative increased profits and taxes amounted to 524.1 billion yuan; and the input-output ratio was only 1:0.46. Capital Iron and Steel's return on investment was 4.7 times the return on investment in technological transformation of enterprises under ownership of the whole people during the same period.

*3. Will the increase in the enterprise's retained profits cause a loss of control over consumption and short-term behavior?*

Between 1978 and 1990 the average monthly earnings of staff members and workers at the Capital Iron and Steel Complex increased from 61.57 yuan to 2890 yuan in a 3.5 fold increase, or at an average 13.17 percent per year. Moreover, per capita profits and taxes at Capital Iron and Steel rose from 4,569 yuan to 26,861 yuan in a 4.88 fold increase, or at an average 15.9 percent per year. The ratio between the total wage bill and profits and taxes realized was 16:100 in 1978 and 12.7:100 in 1989, 8.44 yuan in additional profits and taxes resulting from each 1 yuan wage increase. The increase in staff member and worker earnings was lower than the increase in economic returns; consumption did not go out of control.

Capital Iron and Steel's contract system itself functions as a self-limiting mechanism. Beijing municipal regulations provide that 40 percent of an enterprise's retained profits are to be used to develop production; 30 percent are to be used as a welfare fund; and 30 percent are to be

used as a bonus and awards fund. However, for the sake of the long-term and to ensure sustained economic growth, Capital Iron and Steel changed the percentages to 60 percent for the development of production, and 20 percent each for the welfare and the bonus and awards funds. Beijing also stipulates a 1:1 ratio between the total wage bill and profits, but Capital Iron and Steel took the initiative to change this ratio to 0.8:1, giving first priority to the development of production. Between 1978 and 1990, Capital Iron and Steel's total wage bill increased from 78 million yuan to 450 million yuan in an annual 15.7 percent per year increase. However, its profits increased from 299 million yuan to 2.126 billion yuan for an average annual 19 percent increase, the wage bill increasing more slowly than profits. Staff member and worker income increased, but the wages required to be paid per 100 yuan of profits declined from 26 yuan in 1978 to 21 yuan in 1990 in a 19.2 percent decline.

*4. Did the success of Capital Iron and Steel's contract system result from special consideration?*

Following State Council ratification, Capital Iron and Steel "continued to pay the former industrial and commercial tax"; it did not pay the new added value tax; however, it was allowed to market on its own account 15 percent of all products produced within plan. Some people felt that this amounted to special consideration for Capital Iron and Steel. This issue requires realistic evaluation.

The contract system instituted over a wide area throughout the country in 1987 gave a new lease on life to enterprises; however, the year-after-year collection of new kinds of taxes and the rise in tax rates in recent years have put serious pressure on profits. Reportedly, the tax increases of 1990 caused a rise from 71 to 89 percent in the total amount of taxes and profits that enterprises paid the state, and a decline from 29 to 11 percent in the amount of profit that enterprises retained, thereby greatly weakening enterprises' ability to expand reproduction. Since Capital Iron and Steel did not pay the new added value tax, its situation was very different. During the seven year period between 1984 and 1990, Capital Iron and Steel retained an additional 850 million yuan, but the treasury sustained no loss of revenues over the long term. This was because 60 percent of the 850 million yuan that Capital Iron and Steel retained was used to develop production. Capital Iron and Steel stood to produce 2.26 yuan of output for every 1 yuan of input, producing a total of 1.3 billion yuan. Capital Iron and Steel also paid another 900 million of this to the state in the form of various kinds of profits and taxes, and it also added more than 400 million yuan worth of fixed assets for the state. This method of "raising chickens to lay eggs," and "impounding water to raise fish" is just the kind of matter that must be considered for the invigoration of large and medium size state-owned enterprises.

Since Capital Iron and Steel was permitted to sell 15 percent of its production itself while other concerns could sell only 2 percent of theirs, some people felt that



Capital Iron and Steel's returns stemmed from the special consideration accorded it in this way. This is not in keeping with the facts. After Capital Iron and Steel was granted authority to sell some its own products, state-allocated processed steel was no longer sold back to the corporation. All the processed steel that the corporation used for technological transformation and expansion, for repairs, and for welfare measures, it had to obtain by itself. The corporation also had to use part of the processed steel it was authorized to sell to make up for the state plan supply shortfall. It had to work out deals with other industries to obtain one kind of steel in exchange for another. Little of the processed steel within plan that Capital Iron and Steel was allowed to sell actually entered the market. Consequently, Capital Iron and Steel obtained little economic benefit from the processed steel that it was authorized to sell itself. However, increase in the amount that it was permitted to sell itself did make Capital Iron and Steel begin to gain the vitality of a commodity producer and an understanding of the market. It could develop new products on the basis of market and user demand, readjusting the make-up of its products. Furthermore, this is a precondition for an enterprise's entry into the market. Analysis of statistics shows that the increase in Capital Iron and Steel's returns came mostly from four quarters as follows: 42 percent from the tapping of potential for and increasing output; 30 percent of readjustment of its product mix; 15 percent from reduction of consumption, and 13 percent from diversification.

#### **Further Understanding of Capital Iron and Steel's Experiences**

Capital Iron and Steel's experiences show that only by taking development of the economy as the emphasis and taking the road of the economy determining fiscal revenues can both more "water" be delivered to the state treasury and more "fish" reared for the enterprise itself. If, by contrast, the treasury takes too much, leaving the enterprise with neither authority nor money, the enterprise will lack the motivation necessary for steadily seeking to improve economic returns; thus, the "cake" it makes will not be large, and the state treasury will also be unable to get much of it.

At the present time, both the treasury and business enterprises are facing difficulties. The treasury wants to increase revenues and enterprises want to reduce their burden. The two are locked in intense conflict with each other. What is the solution? The experiences of Capital Iron and Steel provide a very good approach for solving this doubly difficult problem for enterprises and the treasury. This means that only through efforts to solve the main problem of invigorating enterprises and developing their productivity can both the treasury and enterprises ultimately get out of their predicament. If all the effort goes into increasing government revenues alone, business enterprise will lack economic motivation and lose their vigor; it will be impossible to ease the difficult

difficulties. Therefore, only by deciding to allow enterprises to get out of their difficulties first can the government's financial situation be fundamentally turned around.

What do enterprises have to do to get out of their predicament? More and more people have come to the following realization: The key lies in readjustment of the relationship between enterprises and the state, "storing wealth in enterprises" to allow them to have accumulations of their own, and the ability to effect their own technological transformation and their own development, becoming commodity producers that have both decision making authority of their own and their own money. Invigoration of enterprises requires both creation of fine external conditions and efforts within enterprises themselves, but first of all a fine external environment has to be created. Without this precondition, no change in the internal operating mechanism of enterprises is possible, and it will also be very difficult to arouse the fervor of staff members and workers. Capital Iron and Steel's institution of a contract system providing for incremental increase in profits paid the government was an indispensable external condition for the corporation's invigoration. If some people want to regard this as giving "special consideration," it will not hurt to give this kind of "special consideration" to other enterprises, and to make it a regular consideration as quickly as possible.

Although the percentage of government revenues may decline temporarily as a result of the extension of Capital Iron and Steel's experiences, this price is worth paying. It will bring a manifold increase in government revenues in return, and it will be the state that gets the greatest benefit. Capital Iron and Steel's practice in reform has already demonstrated this point.

People must further understand Capital Iron and Steel's experiences!

The spread of Capital Iron and Steel's experiences will help enterprises get out of their predicament and restore their elan.

#### **Development of Yangtze River Valley Examined**

*OW1310085792 Beijing XINHUA in English 0636 GMT  
13 Oct 92*

[Text] Beijing October 13 (XINHUA)—Shanghai, Nanjing, Wuhan and Chongqing, the four big cities along the Yangtze River, recently incorporated the Yangtze Economic Development Corporation in Shanghai with a registered capital of 800 million yuan (148 million U.S.dollar), thanks to coordination by the Communications Bank of China.

This marks a new surge of joint economic development along the Yangtze River valley.



With funds raised from issuing stocks at home and aboard, the corporation will directly join the development of the Yangtze valley, especially the Three Gorges dam project in the middle reaches of the river.

Winding through nine provinces and Shanghai, the 6,300-kilometre Yangtze River and its watershed have the richest natural resources in China. Potential mineral deposits are estimated to be worth about 6.25 trillion U.S. dollars.

Due to administrative interference and regional barriers in the past, joint development was out of the question. Coordinated by the State Commission for Restructuring the Economic System, joint development along the Yangtze valley started in 1985 as a result of economic reform.

Now Shanghai, Nanjing, Wuhan and Chongqing are centres of four economic zones along the Yangtze valley and hold a coordinating meeting every year.

This year saw unprecedented surges of construction along the Yangtze valley, especially in the four big cities.

From January to August, Chongqing, the inland city on the upper reaches of the Yangtze River, introduced one billion yuan (185 million U.S. dollars) from other parts of China and overseas business, of which half is invested by the Hong Kong Zhongyu Industrial Company.

As the hub of communications and the centre of science, technology, economy and trade in central China, Wuhan is building itself into an international economic centre. Now 10,000-ton ocean-going freighters can reach Wuhan harbour, marking its new progress in marching toward the outside world.

Depending on science and technology, Nanjing is building a chemical town, an electronics town and an automotive town. Soon the ancient capital will become a new industrial city with high technologies as its economic pillars.

Shanghai, which has led economic development of the Yangtze valley, is trying to shatter its old image of "a big city with a narrow mind" and become a prosperous international metropolis through development of Pudong New Area.

Now led by development of the big cities along the Yangtze River, a new pattern of joint development has come into being with Pudong at its head and the Three Gorges dam project as the focus.

The Three Gorges dam project has attracted much attention among people along the biggest river in China. In May, the major leaders from 23 cities along the Yangtze River and experts gathered in Wuhan. They agreed to build a unified market to deal with funds, science and technology, commodities, materials, personnel and information in the Yangtze valley for the giant project. Chongqing promised to serve as an important force for the construction and Wuhan plans to

become a "logistics department" for the project while financial departments and banks will finance the project with flexible financial instruments.

In June, the State Council held a symposium in Beijing, discussing the economic program in the Yangtze Delta and the Yangtze River area. The symposium has strategic significance for the development of the national economy to speed up opening to the outside world and development of the Yangtze River areas, according to local economists.

## PROVINCIAL

### Appliance Makers Increase Production in Guangdong

HK1010061192 Beijing CHINA DAILY in English  
10 Oct 92 p 2

[Report by staff reporter Sun Wenge: "Appliance Firms Go on Spending Spree"]

[Text] Guangzhou—Guangdong Province's star household-appliances enterprises are pumping massive amounts of money into an expansion of production capacity as they get ready for future development.

Information from many of these firms, usually giant township enterprises, indicates that they are spending millions of dollars to construct new factory buildings, import production lines and other equipment and technologies.

Along the main roads in the Pearl River Delta region there are many extensive building sites.

"We are building another boom," said He Yingqiang, senior executive and board member of Guangdong Meidi Electric Enterprise Holdings.

The company is investing 250 million yuan (\$46.3 million) in two phases to establish an air conditioner plant with a one-shift yearly capacity of 500,000 sets.

Recently it was restructured into Guangdong's first shareholding township enterprise in order to enlarge itself into a conglomerate engaged in comprehensive business.

The strategy is also shared by Shenzhou Corporation, a gas appliance manufacturer.

The company will build a large motorcycle plant using technology and equipment from Japan's Suzuki Company. With a designed annual capacity of 300,000 sets, the project needs a total investment of 500 million yuan (\$91 million).

"We are investing a wide range of areas because a comprehensive business will give us a broader field to develop. It will also enhance our ability to cope with potential risks, such as the GATT negotiation and the Sino-U.S. trade war," said Li Jinbo, a senior staff of Shenzhou.

Ye Xiaozhou, vice general manager of Zhongshan Weili Washing Machine Factory said that Weili will invest millions of dollars in production of facsimile machines and some other products within the next few years.

Ye said the domestic market has a vast potential, adding: "People will buy so long as your products are the best."

However, it seems that to be the best is to keep up with the latest world fashion. So most of the new production lines and technologies are imported.

More than 80 percent of Meidi's air-conditioner equipment will be purchased from abroad.

"We won't waste time on our own research, we want the most advanced technology right now or we will lose the market to others," He Yingqiang said.

### Hubei's Construction of Donghu Zone 'in Full Swing'

OW1910080092 Beijing XINHUA in English 0722 GMT 19 Oct 92

[Text] Wuhan, October 19 (XINHUA)—Construction of the Donghu new technology development zone in Wuhan, capital of Hubei Province, is in full swing.

Covering 24 square kilometers, the zone is building two parks for development of applied science and technology.

One is Guandong Park. So far 26.7 hectares of the area have been levelled and water, power and telecommunication facilities laid on. Construction of a number of Sino-foreign joint venture companies is being carried out.

The other is Guannan Park where construction of infrastructural facilities is being increased.

The zone is building four main roads in its central and western parts to link up the whole area.

Foreign business people have leased areas in the zone to erect hotels, apartment buildings, recreational facilities and commercial centers.

A zone official noted that large and medium size state enterprises in the zone have made direct contacts with overseas businesses to import foreign funds, technology and equipment to upgrade technically.

According to preliminary statistics, these enterprises opened 30 Sino-overseas enterprises of different types and imported foreign investment totalling 60 million U.S. dollars in the first nine months of this year.

These enterprises have also set up 19 enterprises with their own investment at the zone.

## FINANCE, BANKING

### Interview With Chairmen of Security Companies

93CE0039B Beijing JINRONG SHIBAO in Chinese 28 Sep 92 p 1

[Interview with Huang Yujun (7806 3769 1498), chairman of the board, Huaxia Securities Co., Ltd.; Wang Jingshi (3769 2529 1597), chairman of the board, Nanfang Securities Co., Ltd.; and Zhou Hanrong (0719 3352 2837), chairman of the board, Guotai Securities Co., Ltd. by JINRONG SHIBAO reporters Liu Wenlin (0491 2429 2651) and Liu Min (0491 2204); place and date of interview not given: "Nanfang, Huaxia, and Guotai Securities Companies To Open for Business"]

[Text] Wang Jingshi, Huang Yujun, and Zhou Hanrong emphasized that the three large securities companies jointly put together by the "five banks and one company" are not affiliated with any bank. Instead they are nationwide inter-regional, inter-industry, and inter-sector financial shareholding enterprises that have been established in accordance with market principles and are market-oriented.

Three large securities companies, namely Nanfang, Huaxia, and Guotai, which have become the focus of world attention, were set up in Beijing a few days ago. This important step brought to a close the era in which China went without a national securities company and symbolized the beginning of a new phase of development in the nation's securities industry. In a tripartite formation, Nanfang dominates Shenzhen, Huaxia presides over Beijing, and Guotai holds forth in Shanghai. Jointly they have opened the curtain on a unified securities market in China.

In an exclusive interview with this newspaper, Huang Yujun, Wang Jingshi, and Zhou Hanrong, the three companies' board chairmen, answered our reporters' questions.

[JINRONG SHIBAO] Please describe in detail how the companies were put together.

[Huang Yujun] Our three companies have the same goal: Develop a securities industry, broaden the channels of fund raising, and develop and improve a socialist financial market. Our operating objectives are: Set up subsidiaries across the nation, depending on national economic growth and the development of the securities industry, at the same time develop our business overseas by setting up subsidiaries and representative offices offshore to create a framework with a head at the top and legs at the bottom.

[Wang Jingshi] The establishment of several large nationwide securities companies in Shenzhen, Shanghai, and Beijing both satisfies the need of reform and open policies and economic development and meets the requirements of the drive by China's financial community to accelerate the maturing of a unified securities

market in the country and safeguard the stability of such a market. The registered capital of each of the three securities companies is 1 billion yuan (including foreign-exchange funds). They are financial shareholding enterprises that deal in negotiable securities. The securities companies practice independent accounting, are responsible for their own profits and losses, and pursue self-development. They scrupulously abide by the principles of fairness and justice and protect public interests as well as the legitimate rights and interests of the investors.

[Zhou Hanrong] The three securities companies practice a system whereby the general manager assumes responsibility under the leadership of the board of directors. The shareholders' meeting is the highest organ of power. The company's capital stock consists of the 50 million yuan that each of the "five banks and one company" put up to buy shares in the company, with the balance coming from such legal persons as specialized state investment companies, large-scale enterprise groups, and large- and medium-sized enterprises. In raising funds among these legal persons, we follow the principle that the shares purchased by any one specialized investment company must not represent more than 4 percent of the company's total capital. In the case of an enterprise, the ceiling is 1 percent.

[JINRONG SHIBAO] How is work coming along at the three companies?

[Wang Jingshi] We may say everything we are doing right now revolves around getting the company ready for opening. Preparations are in full swing. Nanfang is headquartered in Shenzhen. We welcome all high-quality professionals, including overseas-trained students, to join Nanfang.

[Zhou Hanrong] We can say we are making rapid progress. A site has been chosen for the company's head office in Shanghai. Its leadership has largely been picked. Key mid-level staffers and sales personnel are taking up their posts one after another. The internal management system is being set up. We may say that things are falling into place and we will open for business any day now.

As one of the three pillars of the financial industry, the securities industry is of the utmost importance. The establishment of these three companies will help the formation of a long-term capital market in China. To achieve this objective, the three companies should adopt all-new mechanisms, introduce the competitive mechanism, and adopt a personnel appointment system.

[Huang Yujun] Things are going ahead smoothly. Capital is flowing into the three companies steadily. Huaxia is gearing up for the big day. It is trying to attract large enterprise groups and local securities companies across the nation to join forces with it by taking advantage of the fact that it is headquartered in Beijing. We are hiring key staffers at the same time that we are organizing a number of subsidiaries in some central cities.

It has been learned that the three securities companies, whose establishment was approved by the People's Bank of China, were jointly put together by the Industrial and Commercial Bank of China, Agricultural Bank, Bank of China, People's Construction Bank, Communication Bank of China, and Chinese People's Insurance Company. It has been said in Japan's securities industry that China's future Nomura Securities is on the horizon.

Nanfang Securities Co. Ltd. opened for business on a trial basis in Shenzhen today.

## MINERAL RESOURCES

### Largest Gold Mine Passes Appraisal

OW0111141692 Beijing XINHUA in English 1359 GMT  
1 Nov 92

[Text] Jinan, November 1 (XINHUA)—The basic construction project of the Sanshan island gold mine, located in east China's Shandong Province and with the largest construction scale in China, recently has passed an appraisal by the Ministry of Metallurgical Industry.

The Sanshan island gold mine, construction of which was started in August 1984, was the biggest project in China's gold industry during the Seventh Five-Year Plan (1986-1990) and was put into production by the end of 1989.

Sanshan island gold mine is rich in gold ore reserves but the geological conditions there are very complicated, making it the most difficult project in the history of Chinese gold mine construction.

The central government, the State Council, and government at all levels in Shandong Province have lent their support for the construction of the gold mine.

Meanwhile, it has become the first gold mine in the country to import overseas technologies and facilities.

According to experts, construction of the gold mine will give impetus to the development of the China's gold industry.

## POPULATION

### New Rules Urged for Planned Parenthood

93CE0022A Beijing RENKOU YU JINGJI [POPULATION AND ECONOMICS] in Chinese No 4, 25 Aug 92 pp 3-10

[Article by Gu Shengzu (6581 0524 7091), Liu Chuanjiang (0491 0278 3068), and Zhong Shuiying (6988 3055 2503), Demographics Institute, Wuhan University: "Additional Ways To Control China's Population Increase"]

[Text] I. Thoughts on Measures To Be Taken: Equal Emphasis on Policy and Development, Effect a Temporary Solution and a Permanent Cure at the Same Time

After pursuing a policy to control rapid population growth for nearly 20 years, both the country's birth rate and the women's overall fertility rate declined markedly from the early 1970's, women in cities having but a single pregnancy for the most part. Since population growth has a cyclical and cumulative character, in addition population growth is small in cities and large in the countryside in China's dualistic society, the absolute figures for population increase are huge, and the degree of decline in the speed of growth becomes smaller and smaller or may even rebound. Population control pressure will be severe in the future.

Finding additional ways of controlling China's population growth requires a clear understanding of where the potential for further population control lies. The formation of a dual pattern of childbearing under China's dualistic socio-economic structure is the point of departure for our analysis of this problem. A single pregnancy has been pretty well realized in cities, so there is no potential for continued declines there; thus, the rural villages naturally become the focus of our study. Understanding this conclusion includes at least an understanding at the following two levels. On the first level, rural population control is both the sticking point and the key to further control of China's population growth. This is expressed mostly in two regards as follows: First, the rural birth level is relatively higher and offers potential for further reductions. Second, the rural population accounts for an overwhelming majority of the national population. If population growth in this quarter can be further controlled, it is bound to have a marked effect on population control for the country as a whole. On the second level, given the current situation in rural population control, the potential for further population control may be divided into two levels as follows: First, reliance may be placed largely on improvement of control mechanism techniques to bring about a further decline in the birth rate. Such techniques include preventing early marriages, which lead to early childbearing and multiple pregnancies. Second is relying mostly on further rise in economic and social development to bring about a further decline in the birth rate. This means the general acceptance of two pregnancies in rural villages. Correspondingly, future Chinese population control must be based on efforts in two regards. One is the need to change control methods, establishing distinctively Chinese scientific birth control methods. Second is the need to bring forth new ideas for system reform in the course of socio-economic development. If one characterizes the first possibility as a way of seeking a way to control population growth by working on the population itself, then the second possibility is going beyond the population itself to seek a solution to the population problem in the socio-economic system. The first possibility provides a "temporary solution"; the second possibility provides a "permanent solution." Although the role of the "temporary solution" method and the role of the "permanent solution" method cannot be easily compartmented in actual population control practice; nevertheless, both a theoretical and a policy distinction

between these population control techniques, which differ in character, holds real significance. First, as was said above, such a distinction reflects the different levels at which a potential lies for further control of population growth in China. Second, this distinction is really necessary at the level of China's socio-economic development and in view of the relationship between the population and the economy. The harsh reality of the serious pressure that China's relatively low level of socio-economic development and its population increase exert on economic growth permit no extravagant hopes that a highly developed economy will lead to a gradual decline in the speed of population increase. Instead, we must first find a way to break new policy ground. In addition, the decisive role of socio-economic development on population increase and population policy control in bringing the birth rate to a lower level than has been achieved in the past comes up against the reality of socio-economic development bottlenecks. This forces us to a quest for economic development as the "best contraception."

## II. Temporary Solution Method: Modification of Management Methods in the Population Control Process

During the 1970's, China used mostly administrative restraints to control population. During the 1980's, it added economic restraints to produce a so-called administrative-economic restraint method. These two methods played a very large role, or had a definite influence in controlling population under the conditions prevailing at the time. Nevertheless, because of certain limitations in the measures themselves, various shortcomings, or certain distortions that occurred were revealed in the process of their application. With the advent of the 1990's and the 21st century, new changes in the situation have occurred or are in process of taking place. We believe that to avoid the shortcomings of the aforementioned restraints, improvements and innovations must be made in the following regards in carrying out planned parenthood.

1. *Change from the administrative-economic restraint form of control to a system of multiple restraints centering around legal restraints supplemented by propaganda and education, administrative restraints, guidance on benefits to be gained, service support and statistical monitoring:* Specifically, such a method would have the following features: (1) Legal restraints would be more authoritative and consistent than other methods. (2) Since they would be more orderly and more open per se, legal restraints would be more readily accepted by the public. (3) Legal restraints could make up for the decline in the power of administrative restraints in collectives and the softening of economic restraints resulting from the general institution of family contract responsibility systems in rural villages. (4) The force of legal restraints could make administrative restraints, guidance in benefits to be gained, and statistical monitoring more effective.

Actually, in recent years 26 provinces, municipalities, and autonomous regions in China have promulgated



local planned parenthood regulations, and the "Marriage Law" that was passed in 1980 also contains provisions regarding planned parenthood. This shows that some steps have been taken to put population control under the legal system, but this is only a beginning. Much work has to be done, such as increasing the authoritativeness of the law (such as the "Marriage Law"), and gradually perfecting various kinds of legislation having to do with population control such as the "Household Registration Law," the "Compulsory Education Law," and the "Population Statistical Reporting Law." Marriage registration agencies and planned parenthood agencies must coordinate their work to ensure the solemnity of marriage registration control. Income policies can be used to regulate people's childbearing proclivities, such as by changing the fine for excess births to the levying of an excess birth social support tax, using legislative improvements as the basis for better law enforcement and judicial work. Those bearing only a single child should be given a single child support allowance. Less tax should be collected from those having two children within plan, but those having two pregnancies or multiple pregnancies outside plan should have to pay a fairly high progressive tax.

2. *In the management field, while paying close attention to management at the top, basic level community management should be enhanced and perfected, all possible done to buttress the planned parenthood control network system.* The planned parenthood control system at the central, provincial, prefecture (or city), and county levels is in fairly good shape today. Townships and towns in some prefectures have gradually designated planned parenthood control personnel or set up planned parenthood offices. A look at the overall planned parenthood control network shows the bottommost elements at the basic community (village and team) level (particularly the basic rural community level) to be extremely weak, "lines broken, the network broken, and the personnel scattered." However, it is at the community level rather than above that the planned parenthood control job is to be done. Because of the weakening of the collective economy sector and control functions in the wake of the general spread in rural areas of economic control reforms putting families in charge of production, bolstering and perfecting the community grassroots level planned parenthood control network appears more important. This network must take responsibility for community grassroots level planned parenthood propaganda and education, planned parenthood monitoring and feedback, planned parenthood enforcement and control, and planned parenthood basic level technical services tasks.

3. *Change in control from emphasis on post-delivery control to pre-pregnancy supervision.* The basic work to be done in the planned parenthood process may be divided into pre-pregnancy control work, pre-delivery control work, and post-delivery control work. Control at different stages in the planned parenthood process marked by a division into the pregnancy and delivery periods may produce a different effect on childbearing

behavior. We believe that the control principle to be employed is as follows: Make pre-pregnancy control the key link, using pre-delivery control as a reinforcing measure for supplementary punishment actions in post-delivery supervision. During the 1970's and 1980's, these were the three links used in conducting planned parenthood work in China. Different areas spent different amounts of time and energy on these three control links. Some areas devoted most of their work to post-delivery supervision, meaning collecting fines for excess births, and some places even went to far as to make the collection of fines for excess births their main goal in planned parenthood, consciously or unconsciously waiting for peasants to have excess births before adopting control measures. Consequently they spent a great deal of time and energy yet excess births outside plan were still not brought under control. Fundamental change from post-delivery control requires not only that personnel in charge of planned parenthood control understand the different effect on population control of post-delivery control and pre-pregnancy control, but even more necessary is the elimination of the motivation of post-delivery control among planned parenthood control personnel in planned parenthood practice. The following actions may be considered as a means of doing this:

(1) Preparation of legal or policy regulations on the birth control obligations of, and the birth control services available to women of childbearing age, so that planned parenthood control personnel have regulations they can follow in supervising and enforcing pre-pregnancy controls on women of childbearing age, thereby avoiding the previous notion among planned parenthood control personnel that pre-pregnancy control work with women of childbearing age was difficult to do, and a frame of mind that favored fines only after women had children before the prescribed childbearing age, or had excess births.

(2) Change from fines for excess births to the levying of a social tax for dependents for excess births to be paid to the treasury, thereby simultaneously assuring planned parenthood agencies the operating expenses needed for planned parenthood control. This provision will change the former situation in which planned parenthood agencies had to contend with operating expense shortages that force them to act improperly by using excess birth fines as a means of "grabbing revenue."

(3) The amount of excess birth fines (or taxes) collected should not be used as a criterion for judging achievements in planned parenthood work. Instead, the main norms for evaluating success in planned parenthood work must be the unplanned pregnancy rate and the unplanned birth rate.

A truly good job of pre-pregnancy control also requires a different division of pre-pregnancy control work tailored to different control situations, and the corresponding adoption of different key control measures. The kind of pre-pregnancy control work to be done depends on the marital and childbearing status of those involved, which



may be of three different kinds as follows: pre-marital control; post marital pre-pregnancy control; and further pre-pregnancy control following a single birth. Emphasis in the further kind of control must be on strict registration of all marriages to eliminate early marriages and early pregnancies. The key task in the second kind of control is the dissemination to the newly married husband and wife of contraception information and the issuance of contraception drugs and devices. The third situation may be further divided into two for purposes of control depending on the status of those involved as follows: In the case of those who have produced a single child and are permitted to bear a second one, the emphasis must be on control to avoid pregnancy for a period time between children. In the case of those who have given birth to one child but policy prohibits having a second child, and for those who have given birth to two or more children, either the husband or the wife must be sterilized.

4. *The principal control entity should be changed from control by a purely planned parenthood agency to comprehensive control by multiple agencies.* Childbearing is just one of the roles that women of childbearing age play. In reality, every person of childbearing age is a role player who performs multiple roles. Thus, control of the childbearing behavior of people of childbearing age may be conducted in two different ways: One is direct control of childbearing behavior solely by controlling her childbearing role; the other is controlling childbearing behavior by controlling the many other roles from many angles. The first method is clear and understandable. It is the easiest for achieving success, and it is also the easiest for producing failure. When the role of the childbearing population changes or its role is obscure, the latter result is likely. This is because he or she needs only to change role to attain his or her objective. This is not true of the second method. Under this circumstance, when those involved change roles, they will be restricted and punished from all sides. In addition, all those involved in exercising control can mutually coordinate controls to make it difficult for the man and woman to change roles, or force them to change them again. During the 1970's and 1980's, population control work in China was basically a "solo performance" by the planned parenthood work sector. Today, the planned parenthood sector must be the center with mutual coordination among departments concerned in a joint shouldering of the heavy burdens of multiple control tasks in population control. For example:

(1) Restriction of early marriage and early childbearing requires that the work units (or the residential area) of both man and wife, civil government, health care, and judicial organs, as well as the Communist Youth League and the Women's Association conduct checks or supervise and propagandize jointly with planned parenthood agencies.

(2) Planned parenthood control for the floating population requires that work units and other control units in the area from which the floating population comes, and

control units in the area to which the floating population goes work together with public security, industrial and commercial, tax, land, construction, labor, health care agencies, and planned parenthood agencies to exercise joint control. In view of the increasing situation in which people leave their home, i.e., in which household registration shows no such person at an address, or no such household in an area of residence, household registration control units and planned parenthood units must cooperate further to change the traditional control method centering around household registration to a control method centering around registration of actual place of residence. In this way, it will be possible to reduce to the minimum the "excess birth guerrilla corps," or the "forgotten corners of planned parenthood."

(3) Coordination of relief to help the needy, development to help the needy, and planned parenthood work requires that civil government, development offices and agricultural means of production supply and procurement units make enforcement of planned parenthood for those receiving assistance a part of their relief and development plans, and that they favor needy households that practice planned parenthood. Otherwise, if they provide relief to households having excess births, not only will it be virtually impossible to attain their relief goals, but they will abet these households' motivation for excess births.

(4) In areas in which the rural work force does not work at home or in cities and towns, family participation in planned parenthood or priority planning, or pledging by family members to a single child or two daughter household should be a prerequisite for entry into nonagricultural businesses, and for moving into cities and towns in the process whereby the agricultural population "changes from agriculture to nonagriculture." In changing from agricultural to nonagricultural work, priority consideration should be given to those areas that strictly enforce planned parenthood policies as a means of guiding people's childbearing behavior.

5. *Introduction of a population quality orientation as a theme in population control, using improvement in population quality to motivate people to control the number of births.* The two track childbearing policy pursued in China's dual city and rural village socio-economic structure is based on realistic choice and nonscientific methods. The low caliber of the rural population causes their low income and their low expectations for their sons and daughters. In addition, because of these conditions, the size of the labor force constitutes an important factor affecting family income. People are universally disposed to have many children. This has been the case for generations that has led to a vicious cycle of low population caliber and high birthrates from which it is difficult to escape. The low caliber of the population leads to a high birthrate, which leads in turn to low investment in human capital, and the low caliber of the population. A high birthrate leads to low investment in human capital, leading in turn to the low caliber of the

population and a high birthrate. Actually, the government must also bear a certain amount of the responsibility for this situation. Not only did it advocate a policy that encouraged population growth during the period immediately following founding the PRC, but for several decades subsequently and right up to the present day, certain policies still have a marked orientation toward population size, such as the long followed "natural" employment system. Prior to reform, rural villages had a per capita grain distribution system, and today a system exists whereby responsibility fields are assigned according to the number of people in a family. In cities and towns, the system for apportioning housing is according to the number of people in a family. All of these things can only worsen population growth. From the theoretical and policy objectives standpoint, control of population size is only a technique. Improving the caliber of the population remains the purpose of population policy. A better population quality orientation helps restrain pressures for an increase in population size, thereby ultimately helping realization of the purposes of population policy. Thus, policy and actions must create a mechanism to encourage few births and healthy offspring. Such policies and actions include better jobs and income in economic activities, and better opportunities for advancement that are linked to population caliber to guide people's thinking and behavior about childbearing away from a pattern of large number of children meagerly nurtured to a pattern of few births and healthy offspring.

6. *While emphasizing limitation and control of childbearing, better birth control knowledge, techniques, services, and advice should also be provided.* Unplanned births occur under two circumstances: First is unplanned births that stem from a conscious decision to become pregnant early and to have excess pregnancies. Second is unwanted, unplanned childbearing stemming from unwanted early pregnancies and excess births. Complete control over unplanned births requires actions to meet the foregoing two circumstances. This means that planned parenthood control agencies must improve and increase education and dissemination of information, services, and advice about planned parenthood, and popularize contraception measures and contraception techniques, particularly the fitting of contraceptive rings, ligations, and renliu [0086 3177] techniques.

Dissemination of contraception information and the spread of contraception measures oriented toward women of childbearing age can reduce the number of unwanted excess pregnancies. Improved and increased contraception techniques can help reduce the number of unwanted births brought about by negative feelings that contraception does not work following unwanted pregnancies. At the same time, education and the dissemination of information, services, and advice about planned parenthood should not be directed so much toward married men and women of childbearing age as toward unmarried people of childbearing age. Although the trend toward increase in early marriage and early childbearing during the 1980 resulted from various factors,

one insufficiently emphasized reason was that lacking information about sex and having insufficient information about contraception and the methods involved, unmarried men and women who reached biological maturity earlier than previously (while the law postponed the marrying age), were forced to premise their marriages on becoming pregnant first and worrying about the pressure of public opinion and the quality of contraception techniques later. We must face up to the earlier adolescence of young people since the 1980's, and the influence of western culture that result to an ever increasing extent in cohabitation before marriage and unmarried cohabitation. The education sector must provide sources in physiology that provide information about sex and the principles of childbearing to young men and women entering puberty, disseminate contraception information and measures to unmarried people approaching biological maturity, and provide contraception medicine and devices to those requiring them.

### III. Permanent Cure Methods: Producing New Ideas About Systems Concerned While Moving Ahead

#### 1. *Production of New Ideas About the Production and Operating System, Moving Ahead With the Intensification of Rural Production and the Socialization of Community Services*

During the more than 20 years since the inauguration of population control work, major changes have been made in the rural production and operating system. Analyzed in terms of population reproduction, the basic features of the formerly practiced people's commune system were as follows: The production functions of families as social cells were abolished under this system, the main function of families being expressed in consumption and providing support. Production teams functioned variously in making production decisions, in organizing production, in providing services for production, in distributing income, and in managing relief loans. Under these circumstances, the response was striking when government called upon people to practice planned parenthood. The reasons were three. First, the level of peasant childbearing was itself fairly high; to a certain extent, the peasants were happy to accept planned parenthood. Second, awed by pressures from the collective power of the people's communes, they feared that the collective might call into question the "work points and grain rations" on which they depended for survival. Third, the peasants were controlled extremely strictly at that time; they had very little freedom of movement. Under the people's commune system, other factors, such as a low level of economic development, also stimulated peasant childbearing. The distribution of the various means of livelihood on a per capita basis, and the amount of work points a family earned directly affected the amount of the means of livelihood they could obtain. Old people also looked to their family for support in their old age. Nevertheless, these factors were offset, or at least very greatly weakened, by the collectivization of political and economic life. Planned parenthood work encountered relatively few obstacles.

Since the 1980's, China's rural villages have practiced a new production and operating system. Under this new system, planned parenthood work has faced unprecedented obstacles for the following reasons: (1) The most prominent point in the new system is strengthening of the family's production function. This function was extremely weak under the people's commune system. Institution of the family output related contract responsibility system was bound to make families want to have a certain size work force to increase the amount of labor input. Concern about the continuity and the replenishment of the work force increased the peasants' desire for greater childbearing. (2) Simultaneous with the increase in families desire for more children was an extreme weakening of the restraining power of rural grassroots level planned parenthood units. Under the new system, the former functions that the collective possessed in deciding on production, organizing production, and distributing income disappeared. In some places, the collective economy became an "empty shell." To use an expression that some peasants who have had excess births use, "I am not in your power; what can you do to me?" Since the administrative methods for planned parenthood were ineffective, the local government lost the power to control. (3) Some of the measures in the output related contract responsibility system encouraged the peasants to more births and more male children. In the distribution of land, for example, the general method was to apportion responsibility fields equally on a per capita basis. When fields were reapportioned on a per capita basis at some future time, girls who married and left home gave up their land, and boys who took a wife into the family received more land. Not only did this apportionment and readjustment of land use rights encourage peasants to have more children, but it reinforced the peasant preference for boys. (4) The family contract system resulted in an intensification of family support functions. Since the collective economy could not provide welfare services such as care for the elderly, the rearing of children as a hedge against old age became a shared need of the peasants. The need for many children, and the birth of boys particularly, became the main obstacle to planned parenthood work. (5) Under the new system, peasant mobility greatly improved. The peasants concealed births from planned parenthood personnel, and they also used multiple births to broaden their social relationship network, particularly their kinship network. This created the greatest possible opportunities for future endeavors.

As a result of analysis of the different features of population control under the two systems, we believe that now is the time for serious consideration of the correlation between the rural production and operation system and population control. In fact, as far as agricultural production per se is concerned, it is necessary to examine critically some of the methods of the contract system. While noting that the contract system has greatly fired peasant enthusiasm for production and advanced agricultural production, we must also realize that there has been no marked rise in the key elements of agricultural

production (the quality of the labor force, production techniques, and the quantity and quality of land). In fact, there has even been some decline. The reason for the unexpected progress in agricultural production of the early 1980's was, to a very large extent, the emancipation of productivity from the repression of the commune system. Results from this emancipation of productivity cannot be sustained for long. It requires that we conform to the tide of history, steadily innovating to advance the development of productivity.

Producing new ideas about the production and operating system at the rural grassroots level with the goal of doing whatever favors population control requires the breaking of new ground. I believe that a reconfiguration of the rural production and operating system so that it helps population control requires, first of all, a return to the point of departure of the production and operating system that made population control difficult, resolving the problem at its source. The source of the difficulties in the country's population control work that the family output-related contract responsibility causes lies in the land distribution system. The contract system is based on "distribution of fields to households"; thus, reform of the contract system to reconfigure the agricultural production and operating mechanism so that it favors population control must also begin with the fields. However, it must be remembered that our reconfiguration of the production and operating mechanism so that it favors population control does not mean simply a reversion to collectivization of the land, and a return to the situation of the egalitarian commune system in which everyone ate out of a large common pot no matter his contribution to it. Our reconfiguration of a new agricultural production and operating mechanism must follow the following several principles: First it must suit the historical trend toward the modernization of agricultural production, the nonagricultural development of rural industry, and the conversion of the rural population into a city and town population. Second, it must help remove the difficulties for population control work that the current contracting system causes in many ways. It must help curb and guide the peasants' childbearing behavior. In addition, this new mechanism must also take full account of current circumstances in the country's rural villages. While pursuing "change," the peasants must be made to understand the essential difference between this mechanism and the large common pot of the past in seeking relative stability and steady development of agricultural production. In view of the foregoing requirement, our beginning point must be a redefinition of the method of land distribution, i.e., a form that is different from the universally existing current one of per capita land apportionment. This system must both stress intensity and also be different from the completely centralized method of farming under the people's commune system. New avenues between the two systems must be found that enable retention of the factors in the prevailing system that encourage peasant enthusiasm for production while also strengthening greatly the authority

of the community government. Only from such a foundation can we have the conditions for improving the community service system to create a favorable climate whereby planned parenthood work that both weakens the thrust of peasant family multiple births and strengthens the effectiveness of population control. Some jurisdictions have explored the land apportionment system to advantage, but they have not explored it very thoroughly. Theoreticians must urgently clarify from a theoretical standpoint the feasibility of closely linking a new agricultural production mechanism to population control. At the same time, all sectors of society must coordinate actions and actively explore methods in practice. The reasons are very clear: This change is no different than another revolution. It requires a high degree of serious attention on the part of the party and government at all levels. Sole reliance on a single sector will be in vain no matter what.

## *2. New Ideas About Population Mobility System To Advance the Formation of Cities and Towns in Rural Areas*

Movement and change of residence of the urban and rural population is one way to promote changes in traditional childbearing concepts, and thus it is a basic guiding force for changing childbearing behavior. Theoreticians have examined from many angles the effect on women's birthrate of population movement, and they generally believe in a positive sense that population movement can produce four effects that promote decline in the birth rate as follows: (1) The adaptation effect, meaning that those making a move may have a fairly high birthrate before moving, but they are fairly strongly influenced by the childbearing behavior of city and town people in their new environment, and they gradually adapt to this environment, their own birth rate also declining. (2) The interference effect. The livelihood of those making a move is interfered with by a series of things in their new environment. Such things include constricted living space in a city, crowded transportation, and other inadequate facilities. Their normal living pattern is disrupted causing a decline in the birthrate. (3) The intermediate effect, meaning population movement from a township or village to a city or town, may increase family separation, postponement of marriage becoming increasingly common. Objectively, this helps lower the population birthrate. (4) The selective effect. Most of the population that flows away from township and villages is the cream. Even if they continue to live in another township or village, their fertility level differs from the ordinary.

The increasing urbanization of population is a universal trend found in the socio-economic development of every country in the world. We found from a survey of population movement in China over the past 40 years that the level of China's urbanization lags seriously behind the country's economic development level, thereby giving rise to a classic dualistic social structure. Looked at in terms of population control, new ideas that give vigorous impetus to a population movement system

to increase the number of people living in cities and towns will be a powerful method for making new advances in planned parenthood work in China for some time to come. The reasons for so saying are as follows: First, the policy of separating urban and rural that China has pursued for more than 40 years has resulted in a tremendous bifurcation between city and countryside. Cities hold enormous attraction for the rural population, but the level of China's urbanization lags behind the level of socio-economic development. It is not only necessary but also possible to move more of the population into cities and towns. Second, adoption of appropriate measures to blend population control methods into this urbanization process could greatly ease population pressure in China during the 1990's and during the next century. It would provide a fairly roomy environment for economic construction. Some scholars estimate that were only children given priority in changing from an agricultural to a nonagricultural status, the model effect would cause such a powerful shock to rural villages that there would be 100 million fewer births in rural villages during the 1990's, and possibly 200 million fewer births by 2010. This would be a tremendous achievement such as no other measure can approach. (Footnote) (Hu Zhubang [5170 4376 1620]: "The Population Control Road on Which Cities Lead Rural Villages", 1991, Academic Discussion Paper on "China's Population Control and Social Development") Third, progress in setting the population in cities and towns can improve the overall caliber of the country's population. Fourth, progress in population urbanization can ease pressures from the aging of the population that will occur. As a result of the fairly general practice of having only a single child in cities, the aging of the urban population is a prominent problem in China. Ways to solve this problem include removal of restrictions on the number of births permitted in cities and urbanization of the rural population. The possibility of using the first of these two solutions is limited by various factors, including the inertia effect of population reproduction itself, as well as consistency in prevailing policies. Possibilities for implementing it are limited, but urbanization is an effective way of improving the age make-up of the urban population.

A shift in the rural population is bound to accompany a transition from an agricultural to a nonagricultural status, and urbanization. Some real life research shows the following: Only when a change from agricultural to nonagricultural status is done in combination with urbanization is it possible for change in the female birthrate to become an irreversible process. This is to say that it was found that for a shift in population to have an effect on population control, both leaving the soil and leaving the countryside were important. The two cannot be separated. On the basis of this knowledge, we believe in looking ahead, a pattern of urbanization that includes both leaving the soil and leaving the countryside must become a population shift system that provides choice, and that this can be used as a measure for intensifying rural reform. We assume that concrete operating



methods that combine new ideas about the population movement system and population control is a model that can conditionally expand the transition from agricultural to nonagricultural life. The condition is that the transition from an agricultural to a nonagricultural life must take into account the country's financial limitations in planning the pattern of development of urbanization, and also must take into consideration policy goals for controlling population size and improving population quality. For example, giving "only children" priority in moving into cities and towns requires a certain amount of money for nonagricultural purposes (such as urban construction support funds, money for housing, and money for employment). Those going to the cities must also possess the ability to engage in production in nonagricultural industries. Most of those destined for cities will have to be placed in medium and small size towns, only children or members of progressive households that practice planned parenthood receiving priority to enter cities, or preference accorded to only those who meet the foregoing conditions. Such a comprehensive population control plan calling for a transition from agricultural to nonagricultural life will not markedly add to the country's economic burdens, and it will encourage young peasants to pursue education and have fewer children. This will have the dual effect of both controlling the size of the population and improving the caliber of the population. In addition, it will prevent the "urban blight" that might follow from the blind surge into cities of large numbers of the rural population. Results of much investigation shows that single child families generally have a higher per capita income, and that "only children" also receive a better education. Therefore, the above plan is strongly workable.

### *3. New Ideas for the Social Security System To Dilute Ideas About Bearing Children as a Form of Economic Insurance*

Results of numerous investigations of peasant motivation for having children show the following: Raising children as a hedge against old age is by all odds the main peasant motivation for having children. This fact, plus the difference between city and country residents' child-bearing motivation as a hedge against old age, fully show that the family security system that provides for the elderly is a bottleneck that prevents a further decline in peasant births. The key to breaking this bottleneck lies in greater peasant participation in the social security system to enable family members to free themselves from the endless cycle of repaying parents when they become old. Once the economic insurance value of raising children is replaced by social insurance, the motivation for rearing children as a hedge against old age to which the peasants adhere tenaciously will self-destruct. In addition, China's population control also means an accelerated speed of aging of the population. This is a large problem that urgently requires that reform of the social security system begin right now to make a smooth transition through this aged population difficulty. Therefore, new ideas about the social security

system is a fine prescription for curing the population "inflation sickness," and it is also a means of curing the "aged population sickness."

Social security coverage in China today is very low. In 1989, only 160 million, or 29 percent, of the 553 million workers in society enjoyed social security coverage. The number of peasants enjoying retirement pay, the five guarantees [guaranteed food, clothing, medical care, housing, and burial expenses], and regular relief numbered only slightly more than 7 million. This is only 1.7 percent of the rural work force. Old people accorded the five guarantees in the rural collective economy nationwide totaled only 6.2 percent of the total, and 93 percent were taken care of by their families in old age. The majority of peasants are largely outside the social security safety net.

We believe that relationships in the following several regards must be addressed in promoting the building and steady perfection of the social security system:

First is the relationship between family care for the elderly and society's care for the elderly. For a fairly long time to come, society's care of the elderly and family care of the elderly will play a mutually supporting role; neither will be able to replace the other completely. Services for the daily life of the elderly include economic support, personal care, and emotional comfort. Social insurance for the support of the elderly, old people's care facilities, and the unstinting services of members of society for the elderly can play an important role in the foregoing three regards. However, because of the level of economic development and the psychological influence of traditional culture, the services for the elderly that society provide cannot be all encompassing. In many ways, family care of the elderly plays an irreplaceable role.

Second is the relationship between mandatory insurance and voluntary insurance. Mandatory insurance provides the most basic security for the elderly, but voluntary insurance provides additional security. Currently, some jurisdictions are providing old age insurance for both city and country households having a single child and rural households having two daughters, but this is far from enough. We must vigorously promote old age insurance for all citizens in the city and countryside that are not single child households and that are not rural households having two daughters, applying mandatory insurance coverage for the elderly to all citizens.

Third is the relationship between social old age insurance and various supplementary kinds of insurance. While vigorously promoting social insurance for the elderly with the goal of supporting the basic livelihood of the elderly, we must provide supplementary insurance for old age parents who have a single child, and other kinds of old age insurance (such as old age insurance for households having two daughters, old age insurance for households having a single daughter, planned parenthood insurance, etc.), both social insurance for the

elderly and various kinds of supplementary insurance for the elderly existing at the same time to form a social security economic security network.

Fourth is the relationship between service support and economic support. Since no complete system providing economic support measures has taken shape in China, and since such a system is still in process of further exploration and perfection, the attention of most people is focused on economic support for the elderly, and service support for the elderly is ignored. As time goes by, the problem of service support for the elderly will become increasingly pronounced. We believe that China must vigorously promote social services for the elderly in which basic community services are the main form. We envision that since the level of economic development will remain relatively low over the near term, the main aspect in promotion of a social security system will be the building of an economic support system for the elderly, and that the task of providing service support to the elderly will pretty much devolve on families. With steady development of the economy and more improvement of the social security system, the socialized component in providing services for the elderly will steadily increase to form a pattern in which socially provided services and family support for the elderly complement each other.

One important limiting factor in current efforts to promote the building and perfection of a social security system is the problem of how to raise money. We believe that the main way to solve the money problem lies in widening the number of investment entities, meaning the building of a "four-in-one" social security system that is suited to China's circumstances. Specifics are as follows: The state will take a portion from social welfare funds; township and village collectives will take a portion from public welfare funds; planned parenthood agencies will take a portion from planned parenthood per capita fees or fines paid for having excess children; and the insured will themselves put up a portion, thereby using investment or savings as a means of promoting innovations linked to the social security system. The percentage and the amount that each of the aforementioned investment entities will invest must be based on a determination of actual circumstances in each local jurisdiction. In the near term, the level of investment of elderly insured, the state, collectives and individual must be higher than for young people to ensure their minimum standard during the declining years of their lives. In the long term, fines paid for the birth of excess children will become fewer and fewer; individual income will become higher and higher; the collective economy will also become gradually stronger occasioning a change in the make-up of investment. Insurance for the elderly is a long-term investment. Over a period of several decades, factors such as inflation can have a major effect on the standard of living of the elderly who are insured. We believe that the state must adopt preferential measures such as indexing the rate of increase in the elderly support fund to the rate of inflation to insure that the

rate of increase in the elderly support fund will always be somewhat higher than the inflation rate. (This differs from the usual value-protected savings style investment). This will enable the old age support fund genuinely to play a role in ensuring the most basic living conditions of the elderly.

#### *4. New Ideas About the Human Capital System, Vigorously Developing Education*

Numerous research results show a marked negative correlation between the educational level and the birthrate of women of childbearing age. Generally speaking, the higher the educational level, the lower the multiple birthrate and the higher the rate of few children or single children. The reasons for the effect on the birthrate of the degree of education are:

(1) Human capital, the spirit of enterprise, and employment opportunities are higher for more highly educated people. Because of their desire and need to study and become employed, they are more predisposed to study and work during their early childbearing age. (2) More highly educated people's pursuit of an intellectual life is frequently greater than their yearning for being blessed with many children. This predisposition helps curb the traditional desire for childbearing. (3) Better educated people are more interested in the quality than the quantity of their children. They hope that their own children will be like them or even surpass them, and will be able to gain a firm footing in society. This view of childbearing affects the birthrate in two ways as follows: First they tend to select the optimum childbearing years to have children; they do not desire either early births or late births. Second, they would rather increase investment in their children's knowledge rather than reduce the average amount of investment in their children's knowledge owing to the heavy burden of numerous children. (4) Better educated people can fairly easily demolish the feudal barriers of "continuing the family line by producing a male heir"; they are less the prisoners of the old culture that taught that "many sons are many blessings." Instead, they are able to understand in an overall way the necessity for controlling population. They accept and understand contraception information and techniques. (5) The better educated the mother, the lower the mortality rate of her children. When children develop well and are healthy, the psychology of regarding childbearing as "insurance" and "replenishment" weakens. (6) The correlation between rural production and the work force shows that a rise in the educational level increases the degree of mechanism of production and raises the level of automation. This results in less need for labor. Income level correlates more closely to the educational level and technical skills of the work force than to work force size. Both results help weaken the tendency to have many children.

Vigorous development of education, and new ideas for a human capital investment system both require a universal compulsory education law that makes education of every citizen a right and a duty, that prohibits child

labor in agriculture, industry, and business. Second, the education system must be of a kind in which multiple entities invest in education and various quarters pool money to operate schools. This includes multiple education levels, and various kinds of education, and an educational system that is oriented toward many different educational needs. Implicit in such a plural investment system is a change in the school "product," meaning graduates, particularly the system whereby graduates having a technical or vocational education are assigned to units, the units paying nothing in return. We must encourage the units that employ such people to make an investment in education. Furthermore, the aforesaid educational system must not arbitrarily set quotas for counties, cities, townships, and towns. While ensuring the quality of basic education, the guiding doctrine and methods that onesidedly seek a higher proportion of students going on to a higher grade must be changed. The main goal of education must be the training of high, medium, and basic level managerial personnel, technical personnel (the technology varying from place to place), and a work force possessed of a certain educational caliber and technical expertise for local economic construction and social development. So long as the field of specialization and the substance of specialized vocational education and education to popularize technology in each jurisdiction is based on the jurisdiction's own conditions and serves the jurisdiction's own economic and social development, it may also cater to the needs of other jurisdictions.

#### **New Features of Population Traits**

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[CONTENDING] in *Chinese No 9, 1 Sep 92 pp 88-91*

[Article by Canadian Ch'eng Ch'ao-tse (4453 6389 3419): "An Updated View of China's Population Traits"]

[Text] While the academic world's generalization of China's population traits has long been "a huge population base, rapid growth, and a young age breakdown," China's changed socio-economic conditions were bound to change its population traits. Since its all-out promotion of family planning in the 1970's in particular, China's birth rate has dropped sharply, which is a very clear change of a former population trait. This means that applying the above-mentioned generalization to China's current population traits not only does not reflect current objective conditions, but also might lead to the wrong conclusions. These above-mentioned population traits reflect only outdated, partial traits. In addition, they reflect only natural changes in quantitative aspects, such as population size, births, deaths, and growth rate, while not dealing with qualitative ones, such as population skills, urbanization, and aging. This article is offering certain reconsiderations of China's population traits, in hopes of soliciting responses from and attracting attention in population circles.

#### **China Has the World's Largest Population Base**

An established fact about China's population is its huge base, which will be a longstanding key trait and become even more conspicuous along with the increase in its sheer volume. China's 1990 population (according to the fourth national census) was 1.134 billion, which was the figure at census time at 0000 hours on 1 July 1990 for those with PRC citizenship and permanent residents within the borders of the PRC. This is 22 percent of the world's population. While the world has seven countries with populations of more than 100 million (China, India, the [former] USSR, the United States, Indonesia, Brazil, and Japan), China is the only one with a population of more than a billion. These seven countries with populations of more than 100 million have a combined population of 2.7 billion, of which China accounts for 40 percent.

While China's natural population growth rate has dropped to a moderate level, its huge base means that even though its annual growth rate is down to 0.01 percent, this still means an increase of more than 10 million a year. By the end of the century, China's population will far exceed 1.2 billion at almost 1.3 billion, and the world's population will reach 6.1 billion, of which China will still account for about 20 percent. As to sheer size, China will expand its gap with the other countries having populations over 100 million, which is a critical matter that China will not be able to ignore for a long time to come.

#### **China Is in a Long-Term Childbearing Peak**

Since the number of births since the 1970's is down sharply, the number of people in the young age group is also down. By 1990, 24.49 percent of the population was less than 15 years old, down 9.2 points from its 33.6 percent in the 1982 census, and 5.83 percent of the population was over 65. This means that almost 70 percent of the population is concentrated in the 15-64 age group, which causes the following problems:

1. A very large percentage of the population is of working age. The 1990 working-age population (16-59 for males and 16-54 for females) was 765 million, or 67 percent of the overall population (not including the armed forces). While this means that Mainland China is a country with exceedingly rich manpower resources, it also creates huge employment pressures. The bearish projection is that China's working-age population will increase 440 million from 1981 to 2000, or an average of 22 million a year, including 110 million in the cities.

2. The age breakdown is still young, meaning that many will enter the marriage and childbearing age in the future, which creates a huge population-growth potential. In particular, China's second 12-year childbearing peak from 1962 through 1973 will have the impact on the decade from 1986 to 1996 of 250 million entering the marriage and childbearing age, or an average of as many as 25 million a year. This means that China's population reproduction is still in a process of change, with a

turnaround being highly possible. It is predicted that a stable low population-growth rate will not be achieved until at least after 1995, and that a much longer period of time will be required to achieve really stable low birth and growth rates.

### China Has a Rapid Population Aging Trend

We said that "the age breakdown is still young," because China's population is in a rapid aging trend. A 1 percent sampling in 1987 found that the percentage of China's over 65 population had increased from 4.9 percent in the 1982 census to 5.5 percent, while the percentage of those in the 0-14 age category had decreased from 33.5 percent to 28.7 percent, pushing the median age up from 22.9 to 24.2 years. Projections are that the over 65-year population will increase from 1982's 49.27 million to 105.41 million by the year 2010, 198.16 million by 2030, and 256.53 million by 2040, to quadruple in 48 years, and to be 5.2 times at its peak in 2040 what it was in 1982. Meanwhile, the ratio of the over 65-year population to the whole population is projected to increase from its 4.91 percent in 1982 to 6.93 percent by the year 2000, 13.51 percent by 2030, and 17.44 percent by 2040.

In comparison to other countries throughout the world, China's population aging is clearly characterized by a late start, a strong momentum, rapid progress, the sheer size of its aged population, and a high degree of aging. While China's cities were the first to experience population aging, its rural areas will experience the most severe population aging in the future.

Mainland China's population aging differs greatly by region. While the places with the highest degree of aging, i.e., Shanghai Municipality and Jiangsu Province, had over-65 populations in 1987 that accounted for 8.5 percent and 6.8 percent, respectively, of their overall populations, certain other provinces and regions, most of which are concentrated in the northwest, have younger populations.

The place in Mainland China with the youngest population age breakdown in 1987 was Qinghai Province, where the over 65 population accounted for only 3.4 percent, the 0-14 age group made up as much as 35.8 percent, and the median age was 20.4 years. But the continued application of the above-mentioned generalization of "a young age breakdown" overlooks the fact that most of the PRC population has begun to age or is in the process of growing up into an adult population, because only a very small part of China actually has a very young population.

### China's Agricultural Population Is in a Transition to Nonfarm Industry

In comparison to 1982, the urban population growth rate was 14.3 percent in 1983, 37.2 percent in 1984, 16 percent in 1985, 14.7 percent in 1986, and 14.2 percent in 1987. This growth rate for the five years from 1983 through 1987 averaged a high 19.3 percent, making the urban population growth rate unprecedentedly high, or

4.8 times its average from 1949 to 1982. This sharp increase in the urban population was obviously the result of the PRC government's promotion of rural economic reform and development of planned commodity production after the Mao era. Rapid rural economic progress freed the rural population from its traditional agricultural order, and rural economic reform advanced the process of migration to the cities by the farm population.

More importantly, Mainland China is a country where the farm population constitutes an absolute majority of 80 percent, or 907 million. In light of the current exceptionally glaring problem of excess farm workers, there is a huge population that needs to be moved. This is because the above-mentioned age breakdown has had the impact of making the growth rate higher for farm workers than for the rural population. The coming to working age of those born during the childbearing peak has sharply increased the excess rural manpower. During the five years from 1981 through 1985, over 100 million of the rural population came of working age, for an average of about 20 million a year.

China's development of township enterprises and small cities and towns has opened up broad outlets for the shift of the farm population. The Chinese Ministry of Urban and Rural Work has made a plan for the year 2000 to have 3,178 organized towns, and to further develop the existing 53,000 rural towns, the development of which organized and rural towns is predicted will accommodate a population of more than 140 million, to absorb about 42 percent of the new population increase for the decade. This task is obviously going to be very difficult, and then is only going to take care of the population increase. Meanwhile, the critical job will still be how to shift rural manpower, since the new manpower increase alone for the next four years will amount to a huge 330 million! Urbanization alone will obviously not take care of this.

Moreover, this urbanization plan did not take into consideration the following three problems: 1. If this 140 million of the new population increase goes into towns, the remaining part of the new population increase plus the existing surplus rural manpower and their dependents adds up to about 350 million who will have to be shifted to cities. Even if new large cities with populations of over 1 million are established, this will mean 350 of them! 2. The funding problem: If every urban resident requires only 2,000 yuan worth of nonmaterial production facilities and each worker needs only 10,000 yuan in fixed assets, a plan to employ only 150 million workers and have 350 million urban residents will take funding of 2 to 3 trillion yuan. 3. Mainland China's current large-scale development of small cities and towns shows that the land costs of such development are 10 times that of absorbing this population into large cities.

Thus, a full cost assessment must be made for the shift of the population increase and surplus farm labor, making it impossible to embrace such an optimistic plan.



### **China's Low Population Skills Are Still Deteriorating**

This population trait has actually always existed. This can be seen easily from just a few key facts in the 1982 census count. Mainland China has almost 250 million illiterates, or one-quarter of the world's illiterates (more than 800 million), and the number is increasing steadily.

Per 10,000 population, China has about 60 with college educations and 662 with senior high school educations, or 722 combined, which is less than 7.22 percent of the total. The corresponding figures for other countries are higher than China's in multiples of 24.9 times for the U.S. (1970), 20 times for Canada (1976), and 10.6 times for Japan (1970).

In China's approximately 520 million working population, only 5.07 percent are specialized technicians, and only a little over 13 million, or only 2.5 percent, have higher than specialized technical high school educations. Even counting those with higher than ordinary high school educations, this still comes to only about 200 million, or less than one-fifth of the whole population.

Mainland China has a low material production level, poor worker efficiency, an inferior S&T utilization rate, and a weak management level, all of which are caused mainly by its too low population skills. The crux of China's population-skill problem is not mainly physical, but rather too low education, which causes too weak social cohesion.

China's low population-skill status is still deteriorating, which is often caused by man-made policy factors. For instance, the "one-child" policy might cause much damage at least to those with superior hereditary genes. If our dissemination of genetics does not keep up with our exercise of policy (which is precisely the case at present), future generations of Chinese may face the danger of a declining genetic physiology quality. We now have over 2,300 kinds of hereditary disease, with 3.6 million idiots at birth alone, which has become a severe social problem. In another area, the "single-sibling problem" has become a special mainland Chinese term. The inescapable result of a solitary child whose parents place all their hopes and expectations on, spoil, are overlenient with, and dote on, is to leave such single siblings with a character that is stubborn, arrogant, conceited, unreasonable, opinionated, selfish, incommunicable, and unable to share, which unwittingly turns out wastrels. This may also become a key factor in declining population skills.

### **China's Uneven Population Distribution Causes Problems**

While China's population is huge, it is certainly also distributed very unevenly. In a 1935 article entitled "China's Population Distribution," Professor Hu Hua-yung [5170 3562 0096] pointed out that he had discovered by drawing a straight line from Aihun in the northeast to Tengchong in the southwest to divide China into two parts, that the northwest had 64 percent of

China's area but only 4 percent of its population, and the corresponding figures for the southeast were 36 percent and 96 percent. The 1982 census showed that the northwest population figure had increased only to 5.6 percent, while the southeast's was still as high as 94.4 percent, for very little change from 1935. In fact, without even drawing a line, the four provinces and regions of Inner Mongolia, Xinjiang, Qinghai, and Xizang make up half of China's area but have only 3.73 percent of its population. In addition, the northwest's population density is only 10.7 people per sq km, or 10 percent of China's average density. Xizang has only 1.57 people per sq km, while Shanghai has 2,043 and Jiangsu Province has 605.2, making their ratio 1:1301.3:385.7, for a difference of several hundred to more than a thousand times!

The eastern half of China has not only a high population density, but also a gender imbalance. This imbalance was created by environmental, historical, and condition factors, a solution to which cannot be momentarily mandated, but the population pressures that it creates may further intensify, particularly the enormous pressure that it puts on large cities, which cannot be ignored. Population expansion is continuing to confront China's large cities with a whole series of problems, such as competition with agriculture for space, insufficient housing, traffic jams, water and power shortages, service difficulties, a shortage of intellectual development facilities in areas, such as science, education, and culture, a shortage of welfare services in areas, such as health, physical education, and support services, grocery supply shortages, severe environmental pollution, increasing numbers of unemployed, municipal government construction obstructions, organization and management not keeping pace, and increasingly complex social problems.

Based on the theories on population centers and their shifts of orbit, recent studies of mainland China in these areas can be summed up in the following conclusions. In the almost 14 centuries prior to 1393, mainland China's population center constantly shifted in a straight line to the southeast at a rate of about 0.43 km a century. During the 535 years from 1393 to 1928, its rate of movement certainly did not change much, but its direction almost completely reversed. From 1933 to 1953, China's population center moved north at a seven-10 times faster pace, after which it moved steadily southwest at a slower pace. Since 1953, China's population center has remained in the eastern part of its 1953 location, but will continue to move southeast in the future, which shows that China's uneven population distribution not only has certainly not improved, but is even worsening. We do not know if China's population center could ever move west from its 1953 center. Li Yi-chun [2621 0308 0193] explains that mechanical migration does not have much of an impact on shift of population center, because population centers move only along with increases in natural growth rates. Even more importantly, this uneven distribution would have to be changed through resource exploitation and economic development in less advanced areas.

While China's changed objective conditions and economic takeoff have left quantitative control its key population problem, they have also made new demands in all population aspects, such as manpower skills, farm population shifts, and industrial structure changes. Thus, a more complete, thorough, and accurate understanding of population traits is needed, which is why I submitted this article to CHENG-MING.

## AGRICULTURE

### Agriculture Vice Minister on Rural Economy

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[Article by Agriculture Vice Minister Chen Yaobang (7115 5069 6721): "New Developments in Our Country's Rural Economy"]

#### [Text] I. Tremendous Achievements in Rural Economic Development

Rural reform has been carried out for 13 years, and the achievements made in this regard have attracted worldwide attention. Reform has liberated productive forces, aroused the peasants' enthusiasm in production, and greatly promoted an comprehensive development of the rural economy. Comparing 1991 with 1978, our country's total output of grain increased by 42.3 percent, cotton by 162 percent, oil-bearing crops by 210 percent, sugar crops by 253 percent, meat by 267 percent, and aquatic products by 189 percent. The total output value of village and town enterprises, which suddenly came to the fore as a new force, went up by 23 times. The country's total agricultural output value rose 120 percent in terms of constant prices based on 1980. Calculated according to 1980 prices, the total rural product of society increased eight times. Now the problem of food and clothing, which had perplexed us for years, was basically solved. The operating and managerial mechanisms for the socialist rural commodity economy with Chinese characteristics have begun to take shape. The growth of the rural economy has laid an important foundation for steady national economic and social development.

1. Agricultural infrastructure and comprehensive production capacity have been improved step by step. Our country now has 1.4 billion mu of cultivated land, a sown area of 2.2 billion mu, and 730 million mu of farmland under effective irrigation. The aggregate power of the country's farm machinery reaches 28.7 million kW, and there are nearly 8 million agricultural tractors. A total of 25.9 million metric tons of chemical fertilizers are applied (calculated in terms of 100-percent active ingredients); the amount of electricity used in the rural areas exceeds 84 billion kW-hours; and the quantity of diesel fuel consumed tops 8 million metric tons. Basic agricultural facilities have formed networks, and socialized services for agriculture have begun to take shape.

Agricultural infrastructure is improved day by day, which has increased our country's comprehensive rural production capacity. The country's total grain output in 1991 was 435.24 million metric tons, next only to the bumper-harvest year of 1990, and it was the second-highest yield year. In 1991, the country's cotton output was 5.663 million metric tons, a 25.6-percent increase over the previous year; the output of oil-bearing crops reached 16.383 million metric tons, sugar crops reached 82.63 million metric tons, and flue-cured tobacco reached 2.698 million metric tons, setting all-time highs. Total meat output reached 31.447 million metric tons, up 10.1 percent over the previous year. Egg output was 9.218 million metric tons, milk was 5.257 million metric tons, and sheep wool was 241,000 metric tons, increasing 16, 10.7, and 0.4 percent, respectively. New steps were taken in readjusting the structure of animal husbandry. The proportion of pork in the total meat output went down to 78 percent from 79.8 percent in the previous year, and the proportions of beef, mutton, poultry, and rabbit meat kept rising. The number of pigs slaughtered increased three percentage points compared with the previous year, up to 90.3 percent.

Output of aquatic products in 1991 reached 13.39 million metric tons, a 8.3-percent increase over the previous year. The area for breeding aquatics in seawater and fresh water expanded to 67 million mu, up 4 million mu over the previous year. There were 234 deep-sea fishing boats operating abroad, with an output of over 180,000 metric tons [figures as published].

2. Agriculture has been developing from traditional farming techniques to applying modern science and technology. Our agricultural technology has considerably developed. An atmosphere is prevailing in the country in which science and technology are applied to develop agriculture. Science and technology are now playing an increasingly important role in agriculture.

At present, our country has a fairly strong scientific and technological force, and a system for advancing science, technology and education has begun to take shape. In 1991, the country had more than 1,120 agro-scientific research organizations, with a total of more than 120,000 workers and staff members; 66 agricultural universities and colleges, with a total enrollment of 120,000; 375 secondary agricultural schools, with a total enrollment of nearly 180,000; a central agricultural radio and television school, with an enrollment of 630,000; and 200,000 service organizations for popularizing agricultural techniques, with nearly 1 million workers and staff members. Over the last 10 years, our agricultural front achieved an annual average of 7,000 scientific and technological results, of which more than 60 percent have been popularized and put to practical use in varying degrees. Of the increase in agricultural output, 30 to 40 percent are attributed to scientific and technical factors. So, the necessity of relying on scientific and technical progress and improving production quality is now commonly understood among party and government leaders at all levels as well as people of all walks of life. To apply

science and technology in agricultural production has become a conscious action taken by agricultural departments. Since peasants have benefitted from scientific and technological applications, they are becoming more and more eager to learn and apply scientific knowledge.

3. Village and town enterprises have become a pillar of the rural economy, as well as an important part of the national economy. In 1991, China's village and town enterprises yielded a total output value of 1,161.18 billion yuan, up 21.2 percent from the previous year. Of this total, the industrial output value was 869.89 billion yuan, up 24.3 percent. In 1991, village and town enterprises paid 45.46 billion yuan of taxes to the state, an increase of 16.1 percent above that of 1990; delivered export goods worth 66.99 billion yuan, up 29.1 percent; provided 8.65 billion yuan of subsidies to agriculture, up 11.2 percent; invested 12.18 billion yuan in rural construction, up more than 15.5 percent; and employed 22 percent of the total rural work force, or 96.097 million people, an increase of 3.34 million people over 1990. Their 1991 total output value was 24 times that of 1978. In the country as a whole, village and town enterprises have entered a new stage of development. In the coastal regions, suburban areas of large and medium cities, industrial and mining districts, and other economically developed regions, the village and town enterprises have ushered in a stage of steady development, in which they are striving to improve their overall quality and management skills, upgrade their products, enhance economic efficiency, and become more capable of coping with contingencies in domestic and international market. In other regions, village and town enterprises have also been on the rise.

4. Remarkable achievements have been made in helping poor regions. In the six years or so since China launched a large-scale program to help poor regions, it has brought about rapid economic development and sharp increases in income in those regions and has remarkably improved the people's living standards there. We have achieved the objective of satisfying the people's basic needs in food and clothing in most poor regions—an objective set by the central authorities for the Seventh Five-Year Plan period. In those 328 poor counties enjoying a high priority in state assistance, the per capita income among peasants rose from 216 yuan in 1985 to 339 yuan in 1990. Since 1991, most poor regions have entered a stage of development with state assistance, in which their main objective is to become well-off.

## II. Main Experiences in Rural Development

The fact that our social and economic development in rural areas has been in a coordinated and steady manner convincingly indicates that it is reform that has liberated productive forces. The Third Plenary Session of the 11th CPC Central Committee is the historical prelude to rural economic reform. First of all, it broke the bonds of past theory on the collectivization of agriculture, recognized the family economy's leading role in collective economic

organizations, and appropriately separated the ownership of the means of production from the right to deal in and to use them. It also did away with sole collective ownership system of the rural economy, established rural ownership systems at various levels, broke the theory of the rural product economy, put forward the idea of establishing a new system of rural commodity economy, and began the microeconomic management that mainly uses market mechanisms to regulate the rural economy. As the rural economy continued to develop, it re-established rural organizations and systems. Reform of the rural economic system and the readjustment of the rural industrial structure are fundamental driving forces for rural development.

### 1. Rural Organization and Innovation of Systems

Implementation of responsibility systems in rural areas centering on the household contract responsibility system with remuneration linked to output is the most influential change in the reform of the rural economic system, as well as a great creation by hundreds of millions of peasants.

Reform of the rural economic management system, which began in 1978, was carried out from the lower to the upper levels in all fields. The household contract responsibility system with remuneration linked to output, which is based on the system of contracting output quotas to households with the production team conducting unified accounting and the system of contracting output quotas to individual households without the production team conducting unified accounting, replaced the original system in which a production team managed all production work, thus beginning to break up the old system's foundation from the lowest level of the rural economic management system. As of the end of 1984, 99.96 percent of the country's 5.69 million production teams had instituted a system for contracting output quotas to households with a production team conducting unified accounting and a system of contracting output quotas to individual households without a production team conducting unified accounting. Currently, 98.2 percent of the country's villages and 96.3 percent of peasant households have instituted responsibility systems based on the household contract responsibility system with remuneration linked to output; and these systems have been implemented on 98.6 percent of cultivated land. This new production management method is in line with the country's agricultural production level, has done away with the egalitarianism that had long existed in distribution, has greatly aroused vast numbers of peasants' enthusiasm for production, and has laid a foundation for innovating rural organizations and systems. As practical work develops, especially as modern agricultural science and technology is promoted and as production work becomes more professionalized and socialized, things that some peasant households are unable or unwilling to do and things that are uneconomical being done by several households need to be accomplished by collective organizations. This situation has

posed an objective need to combine centralized management with decentralized management. Community cooperative economic organizations have sprung up in the process of refining the dual management system that combines household with collective operations. At the same time, peasants have taken the initiative to establish many other kinds of cooperative economic organizations. These new types of cooperative economic organizations have broken up regional boundaries and the regional ownership system, enabling new economic cooperations to be established between regions, industries, and various types of ownership systems. These new economic organizations exist in many forms and their common feature is cooperation without changing relationships between ownership systems. Capital, assets, or manpower can all be used as shares for cooperative businesses, and distribution is based on the labor, capital, or the value of assets one has put in. Most of these types of cooperative economic organizations exist in secondary and tertiary industries. Their development has injected new vitality into the rural economy.

## 2. Pushing Forward Reform in Ownership Systems

In the course of reforming the rural economy's structure, enthusiasm in various sectors of society has been enhanced by allowing the simultaneous development of diverse sectors of the economy while adhering to the principle of making the public sector of the economy the predominant form.

Since the Third Plenary Session of the 11th CPC Central Committee, one of the major changes resulting from rural reform is the recognition of peasants' ownership of some means of production, including some farm machines and implements. Except for land (including water areas, grasslands, and so forth) and some important infrastructural facilities, a great proportion of other means of production is now owned by peasants. In the past, farm machinery in rural areas were collectively owned, but 70.47 percent of large and medium-sized tractors, 96.18 percent of small tractors, 74.46 percent of trucks for farm use, and 72.53 percent of drainage and irrigation machinery for farm use in rural areas are owned by peasant households; 77.58 percent of fixed assets of village and town enterprises are owned by village and town collectives, while 22.42 percent are owned by individual peasant households or are jointly owned by several households. A new economic factor has emerged in the growth of the rural economy, gradually giving rise to a structure of multilayered ownership. This pattern of ownership, which makes the public sector of the economy the predominant form and allows diverse economic sectors to develop side by side, is full of vigor and vitality.

## 3. Reform of the Circulation System in Rural Areas

Abolition of the system of unified and fixed state purchases of the majority of agricultural products began in 1985, and the system of state purchases of grain and cotton by contract was introduced. Peasants were

allowed to freely sell their farm produce not covered by contracts at markets. This was a fundamental change the state brought about in the distribution of farm produce.

The abolition of the system of unified and fixed state purchases of farm produce gave rise to and nurtured markets—with the carrier responsible for the operation of the rural commodity economy—as farm products were sold in markets as commodities. As the market mechanism took shape, the law of value played an increasingly important role in regulating the operation of the rural economy.

## 4. Changing the Mechanism That Exercises Overall Regulation of the Rural Economy

Under the old system, administrative interference was used as an important means to regulate the distribution of natural resources and the operation and development of the rural economy. Since the introduction of reform, a macroeconomic regulatory system has taken shape, employing economic means as the predominant form of interference, supplemented by administrative and legal means.

At present, long-term plans, medium plans (five-year plans), and annual plans for the development of the rural economy are still formulated by the state and passed on to basic levels through government planning departments and departments in charge of agriculture. However, a change has taken place in the nature of these plans. Based on development goals set by higher authorities, planning departments and departments in charge of agriculture by local governments will make the necessary revisions in light of local conditions and draw up their own development plans to guide the operation of the rural economy and realize their development goals. On the basis of the targets set by the plans, departments in charge of agriculture will draw up their own work measures to guide peasants in engaging in production activities according to plans. The change from mandatory planning to guidance planning marks a fundamental reform in the macroeconomic control mechanism for the rural economy. As a result, peasants are encouraged to compete in the market; the government mainly plays the role of exercising macro-control over markets; and peasants' economic activities are mainly regulated by markets.

We should reform the investment and monetary systems and let loan interest rates play a regulatory role. With the majority of rural investors shifting to peasant households in recent years, both the state and local governments have carried out major reforms in investment orientation, investment patterns and the investment management system. First, they changed the equal-share investment of the past to investment in selected projects. The state is using its limited financial resources in supporting the construction of agricultural commodity bases to increase the supply of essential agricultural products, in supporting the construction of export commodity bases to boost foreign exchange earning power,



and in supporting the construction of productive projects to enhance the vitality of underdeveloped regions. At the same time, they have changed the old practice of fund allocation by government departments and have put funds in circulation for compensatory use by borrowers. The state and local governments have raised the utility of funds by setting up investment companies which are run as enterprises.

Banking facilities, such as agricultural banks and credit cooperatives, operating as enterprises, decide on recipients for loans and the interest rates according to peasants' needs and economic efficiency, and use the loans as a means to regulate the latter's productive activities. Their role in regulating secondary and tertiary industries in rural areas in particular is very noticeable.

#### 5. Readjustment in the Structure of Rural Production

In the 1980's, village and town enterprises suddenly came to the fore as a new force and caused important changes in the rural economic structure. Under the people's commune system before the start of current reforms, centralized labor organizations and unitary productive operations constituted the main body of the rural economic structure. Under the system of a planned economy, the rural economy was basically crop cultivation and aquaculture, with grain as the main crop. That production pattern greatly restricted economic development. With the implementation of the output-related household responsibility system and with the readjustment of the rural economic structure, unitary crop cultivation and aquaculture are becoming a crop cultivation-aquaculture-processing and agriculture-industry-commerce integrated operation, the traditional agricultural production is being modernized, and the product economy is being transformed into a commodity economy. The readjustment of the rural economic structure has promoted economic prosperity and development in rural areas.

The development of village and town enterprises has accelerated the industrialization, urbanization, and modernization of rural areas. A large number of medium-sized and small cities and towns have emerged in the vast rural areas of China. Peasants who have engaged in farming for generations have changed their way of production and life and have become a new generation of peasants. As of the end of 1991, the total output value of China's village and town enterprises accounted for 59.2 percent of the rural gross product. Of the total output value of 1,161.1 billion yuan achieved by village and town enterprises, their industrial output value was 870.8 billion yuan, accounting for 30 percent of our country's total industrial output value. The rise of village and town enterprises has changed the economic structure in both urban and rural areas. They have become an important pillar of rural economic and social development, as well as an important component part of the national economy and the main body of medium and small enterprises. Their success has provided us with an

important experience in reforming the operational mechanisms and the structure of the national economy as a whole.

#### 6. Establishing an Agricultural Socialized Service System

Following the development of the rural commodity economy, to meet the needs of decentralized operations of rural households, the establishment of an agricultural socialized service system has become an important aspect of deepening rural reform, and an important substance for stabilizing and improving the dual management system in rural areas. Composed of state economic and technological departments, rural collective economic organizations, and various specialized service organizations, the agricultural socialized service system has become a basic organizational system of China's agricultural socialized system. Efforts such as popularizing agricultural technology, scientific research, and education, have already become important components of our agricultural socialized service system. Relying on rural collective economic organizations, strengthening service functions and measures by combining technology with materials, and setting up economic entities have become the basic characteristics of reform in the agricultural socialized service system. Following the continuous deepening of reform, the departments of agriculture, animal husbandry and fisheries have formed many production and operational entities by integrating production, supply and marketing, planting, breeding and processing, as well as internal and external trading, with the offering of services as their aim, distribution as their link, and spear-headed by the processing industries. Those economic entities that are invested with service functions, some in the form of enterprises with household participation, and some in the form of farming units and stations with household participation, have become components in the agricultural socialized service system. The establishment of a socialized agricultural system has effectively promoted the commercialization and modernization of agriculture.

### III. Basic Train of Thought Concerning Rural Reform in the 1990's

Presently, China's agricultural and rural economic reform and development have entered an important historical period in their orientation towards commodity economy and modernization. To deepen rural reform and accelerate rural economic development, we must continuously mobilize our peasants' positive productive factors, develop a socialist market economy, continuously reform the macro-management system of the rural commodity economy, and remove all obstacles to the development of the rural commodity economy.

#### 1. Focal Points of Deepening Rural Reform

Practice in rural reform has fully shown that the implementation of the household-based contract responsibility system, coupled with the establishment of the dual management system on the basis of household contract

responsibility conforms to the practical situation in China's rural areas. It is widely adaptable and full of vigor and vitality. It should be sustained for a long period as a basic system of our country's rural collective economic organizations. Of course, in the wake of the development of productive forces in rural society and changes in relationships in the rural commodity economy, the dual management system will continuously undergo readjustment in form and substance. However, readjustment in no way means changing this system, but rather seeking to improve dual management for household and collective operations on the premise of stabilizing the basic system. To improve the dual management system, first of all we must properly handle it and stabilize its relationship with the household-based contract responsibility system. To stabilize refers to maintaining the stability of the system; to seek improvement mainly means making efforts to properly resolve problems arising in the course of implementation. In our efforts to stabilize and improve the system, the places where contradictions will be emphasized will vary in accordance with varying situations in various localities. It all depends on specific circumstances. Looking at the national situation as a whole, the main task of improving the level of household operations lies in seriously perfecting land contracts and other categories of contracts, and clearly defining the rights and obligations of both parties. Peasant households may renew contracts upon their expiration. For those industries with large investment and slow return, contract periods should be longer. On this basis, when faced with fragmented pieces of land that are unsuitable for cultivation, we may follow the wishes of the masses in adjusting according to their values. In case adjustments are really necessary for various reasons, such as infrastructure taking up much space, or population mobility, they should be strictly handled. In some localities which adopt the "dual-land system" [liang tian zhi 0357 3944 0455], adjustments should be made with the accounts and not the land so as to be conducive to stabilizing the contract relationship. Some localities may call for efforts to "stabilize contract rights, strengthen management power, and liberalize utilization rights." As to which is a better system mainly depends on local conditions and its acceptability by peasants. In other words, we should take those measures which are suitable for local conditions. In regard to the scale of operation of agricultural enterprises, we must give consideration to various factors and must never implement these by force.

Establishing a complete socialized service system in agriculture should be a focal point in the current endeavor to perfect the dual management system that combines household and collective operations. To provide unified services for farming households in land cultivation, seed supply, irrigation and drainage, plant protection, harvesting and transporting, processing, and circulation is a major function of the unified operations of collective economic organizations in rural areas. Judging from surveys in various rural areas, there are only a few collective economic organizations that have

set up a relatively comprehensive system for providing agricultural production services in general. According to a special survey of 274 observation village posts across the country, 73.4 percent of village collectives have provided services of various kinds in production coordination for farming households. As for economic and technology services provided by the state, agricultural departments have set up agricultural technology, farm machinery, animal husbandry and veterinary, aquatic, and operational and management service stations at the township and town level in rural areas. Scientific and technical personnel from research institutes, schools, and other units have gone deep to the frontline of production to popularize science and technology through a wide range of activities. In addition, services are also provided by the forestry and water conservancy departments, supply and marketing cooperatives, and credit cooperatives. Professional service organizations such as professional associations, professional cooperatives, and specialized households, which are set up by peasants of their own free will, also offer all kinds of special services. In developing and completing a socialized service system for agriculture, we should actively shift services from combining technology with materials during production to integrating production, supply, and marketing, thereby setting up a system that provides services throughout the entire process of production and circulation. This is a demand for developing production as well as boosting and invigorating the service system.

## 2. Continue To Deepen the Reform of the Farm Products Circulation System

Significant achievements have been made in reforming the circulation system of farm products. The relaxation of control over aquatic products and fruits has especially been given a strong impetus in the development of production. Marked results have also been achieved in the subsequent decontrol of prices of nonstaple foods such as vegetables, poultry, eggs, and pork, considerably alleviating the rationing of nonstaple foods. However, judging the situation as a whole, China still faces a formidable task in reforming pricing and distribution systems for grain, cotton, oil-bearing crops, tobacco, a few Chinese medicinal herbs, and some other farm products. Reform is needed to improve, in particular, the underdeveloped market, inadequate macroeconomic control and the regulatory and operational mechanisms, and a management system which still cannot cope with the demands of the development of the commodity economy.

In deepening the reform of the distribution system for farm products, we should, first and foremost, reform the pricing system. Although the state sets prices for only a few farm products, notably grain, cotton, and silkworm cocoons, they are large in quantity and thus directly affect the development of agricultural production and the rural economy. Due to various reasons, state-fixed prices for these farm products have always been excessively low. As a result, their economic efficiency is

considerably lower than other lines of agricultural production, thus seriously hampering peasants' enthusiasm in growing grain crops. For the past two years, the price of cotton has been readjusted by a big margin and cotton acreage has increased. Should we fail to invigorate the distribution system, problems selling cotton may resurface. At the root of the problem is the fact that operational mechanisms for producing and distributing farm products are inadequate, and that pricing, as the most important lever, can still fail to bring into full play its regulatory role. Therefore, pricing reform in farm products should be concentrated on establishing the mechanisms for markets to decide on prices, so that prices can be affected by such important factors as supply and demand, seasons, regions, variety, and quality. Only with price differentials can we correctly guide production and turn out different kinds and degrees of quality in products for distribution in different sectors.

It is necessary to build multiple distribution channels in addition to decontrolling prices in a timely and appropriate manner. Except for a very small number of commodities, such as tobacco and wine, various monopolies should be abolished as soon as possible. Vigorous efforts should be made to support peasant-run distribution organizations entering into the market. In addition, we should accelerate market building to form networks. Reforming and strengthening macroeconomic regulation and control systems are an important guarantee for the reform of distribution systems. While relaxing restrictions, the state should lay down a series of policy measures to protect producers, such as price-stabilizing funds, reserving purchases [chu bei shou gou 0328 0271 2392 6356] of products at protective prices, and establishing production risk funds (peasants should also contribute a little to these funds). With the means for regulation and control, decontrolled prices will not fluctuate sharply; only thus will it be possible to protect consumers' fundamental rights and interests and alleviate business operators' risks.

### 3. Reform of Village and Town Enterprises

In reforming village and town enterprises, attention should be paid to improving the contract system of managerial responsibility and establishing an ownership structure embracing diverse economic sectors—with public ownership as the main one; property rights should be more clearly defined by implementing share-holding and the share-holding and cooperation system. Tremendous economic results have been achieved after implementing the agricultural output-related system of contract responsibility in village and town enterprises. This system has been continuously improved by those enterprises through their practice of it for years. Wuxi County first practiced what is called the "three contracts and one reward system" and then instituted a "system for contracting operating assets" over the past two years. Wuxi County summarized its experiences separating ownership from operating powers, practicing the two-tier contract system (contracts signed between an enterprise and

a village economic organization and between the enterprise and a workshop), doing business accounting at the factory and workshop or section levels, entering two markets (the domestic and international markets), and making an initial distribution of income at the beginning of each month and final distribution of income at the end of the year (this is aimed at preventing people from only seeking immediate interests, and the enterprise examines whether a contract is fulfilled before making a payment according to contract terms). In setting contracted quotas, it is necessary to take an enterprise's long-term interests into account, to avoid the act of only seeking immediate interests, and to build good mechanisms for fund accumulation.

Efforts should be made to quickly develop the share-holding system and the share-holding and cooperation system in village and town enterprises. To solve the problem of a lack of economy resulting from small scale, some individually-run or private enterprises have also begun to practice the share-holding and cooperation system. After experimenting on the share-holding system, collectively owned enterprises in many places have given some of their shares to collective village economic organizations, some to peasants, some to workers and staff members, and some to enterprises themselves (legal persons holding shares). Since such reforms are a kind of experiment with a view to clearly defining property rights, they should be permitted to continue. However, in the process of conducting such experimentation, it is necessary to exercise great care and pay close attention to policy so as to maintain a balance of interests. Some new enterprises have raised funds by selling shares, and some others are set up as share-holding enterprises or companies. All such practices meet the actual needs in the development of village and town enterprises in rural areas, and they should be allowed to exist and develop.

Industrial and departmental management is an important aspect in the reform of village and town enterprises. It should be clearly understood that village and town enterprises are peasants' enterprises, most of which are collectively owned. Village and town enterprises, no matter how they are reformed, cannot cut off their ties from the peasants, the collective economic organizations of peasants, and surplus agricultural manpower. If village and town enterprises are not further developed, attaining relatively comfortable living standards for peasants and achieving the industrialization and modernization of rural areas will be empty talk. Under the pretext of industrial management, some units have now separated village and town enterprises from agriculture and the rural economy. This is not right. Once they are separated, not only will agriculture lose an important force in support of its development, but village and town enterprises will also be subjected to serious limitations in their own development and their workers and staff members will receive no support from rural areas.

#### 4. On Reform of the Economic Operating System in Rural Areas

The organizational framework of the agricultural and rural economic operational system should be the establishment of an operating system that combines production with marketing, in keeping with the demand for commodity production. Those departments in charge of agriculture and the economy in rural areas should attend to production as well as distribution; and productive forces as well as production relationships; they should implement major principles pertaining to rural reform and development, and formulate and execute industrial policies. This requires the departments to have fairly strong regulatory and control capabilities. To be specific, they should be capable of drafting major principles and policies, reform programs, and suggestions for laws and regulations concerning agricultural and rural development; drawing up plans and long-range strategic plans for rural economic development; arranging production and construction patterns; organizing the construction of projects for comprehensive agricultural development, river control, large-scale commodity bases, and agricultural infrastructure; guiding the development of agricultural science and education in technology; coordinating efforts to tackle key scientific and technical problems and appraising the results of research projects and popularizing important research results; inspecting agricultural administrative departments and their enforcement of the laws; managing and protecting agricultural, forestry, and water resources; drawing up and supervising plans on loans and investments covered under agricultural policy; controlling the quality and standard of major farm products; exercising administrative supervision over state-run agricultural, animal husbandry, and fishery enterprises and village and township enterprises; and taking part in the management of domestic trade and export-import trade of farm products. Departments in charge of agriculture and the economy in rural areas should be equipped with these operating mechanisms and should gradually perfect them.

In the ongoing organizational reform, various localities have pursued a "small government with ample services," which is in line with the general direction of reform. However, in the course of reform, we should neither weaken nor even deprive the government of its due functions. Commercializing services, or getting paid for services, is appropriate, and we should encourage institutions to set up economic entities that provide services.

Nevertheless, the government should not slacken its efforts to serve agriculture. Because a substantial portion of socialized agricultural services are targeted mainly at increasing social benefits, we should not simply push technical service organizations into society and suddenly separate them from agriculture and the rural economy. On the contrary, along with the development of agricultural undertakings, the central government and local governments at all levels should increase outlays for agricultural undertakings. Funds earned by agricultural service entities as a result of increased revenue should be used primarily for improving working conditions and further developing socialized agricultural services. Of course, many agricultural production and operational activities should be conducted by enterprises—such as agriculture-industry-commerce companies, animal husbandry-industry-commerce companies, fishery companies, and seeds companies—for providing services to peasants in production and distribution. However, it will be difficult for enterprises to provide technical services for the production of grain, cotton, and other major crops. Therefore, we should deal with different types of agricultural service entities according to their actual conditions.

#### New Two-Line Hybrid Rice Strain Developed in Hunan

OW2210035192 Beijing XINHUA in English 0243 GMT  
22 Oct 92

[Text] Changsha, October 22 (XINHUA)—A low temperature hybrid strain of rice has been successfully bred by the Hunan Hengyang Agricultural Science Institute.

Known as the Hengnong S-3 shan rice two-line strain, it is a cross between wild and cultivated strains, and is the result of work by Zhou Tingbo, associate research fellow at the Hengyang Agricultural Science Institute.

With a high reproduction yield and outstanding hybrid advantages, the easily-cultivated Hengnong S-3 has paved the way for the further success of two-line hybrid rice, according to experts.

The new strain bred by Zhou and his colleagues breaks the limitations of previous strains of hybrid rice. Hengnong S-3 is of good quality with a high yield of over 7,500 kilogram a hectare. It will greatly increase grain production when planted on a large scale.



**Editorial: Budget Deficit Will Not Lead To Inflation**

*OW2410121592 Taipei CHINA POST in English  
21 Oct 92 p 4*

[Editorial: "Growing Budget Deficit"]

[Text] The government initially plans to borrow some NT [New Taiwan] \$300 billion (about \$12 billion) from the bond market in the new fiscal year, beginning 1 July 1993, to finance the construction of infrastructure projects.

This borrowing plan, if enacted, will get the government deeper into debt. Outstanding government debts incurred mainly through bond issues have already reached a high NT\$788 billion, or 64 percent of its budget for the current fiscal year.

Some legislators and others question the wisdom of the government's plan to further raise huge amounts of loans, saying that a large budget deficit could add inflationary pressure.

This concern does not seem to be valid. The large budget deficit has occurred as a result of the government raising funds to expand public works, such as highways and power-generating facilities.

Such basic facilities are seriously retarding economic development and need urgent expansion. Their development will facilitate business activities and increase the efficiency of the economy.

Because of these advantages, the government budget deficit brought about by investment in public works should not lead to an increase in inflationary pressure.

In fact, it is necessary for the government to further increase public-sector spending to generate domestic demand at a time when the economy is slowing down amid declining exports, due to sluggish economic performance in major industrial countries.

The real problem with the government's massive investment in the various ongoing public works is a lack of efficiency. Construction on many of the projects is falling far behind schedule.

The government must try to open as many as possible of the infrastructure projects to private investment. Private investors tend to be more efficient than the government in conducting businesses.

Also, bringing in private investment in various public-sector projects, expected to entail outlays of more than \$310 billion, will help reduce the government's financial burden.

**LIAOWANG on Prospects for PRC Economic Cooperation**

93CE0018A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 33, 17 Aug 92  
pp 23-25

[Article by Jin Jiwen (6855 1323 2429): "Prospects for Economic Cooperation Between Mainland China and Hong Kong"]

[Text] Since China's reform and opening up in 1979, the tremendous capability for mainland-Hong Kong economic cooperation (hereafter abbreviated as economic cooperation between the two regions) has been set free, arousing a great deal of attention from industrial and commercial circles, intellectual circles, the government sector in the two regions, and getting the attention of the whole world.

Where will economic cooperation between the two regions go in the future? In the face of the gigantic historical change of Hong Kong's returning to the motherland and the new international economic structure that is being formed, there is widespread interest in this issue. We believe that there is now a solid and stable foundation for economic cooperation between the two regions. The two regions' economies can be said to be closely related and mutually dependent, and they will rise or fall together. New circumstances offer challenges to the current form of economic cooperation between the two regions, but they also bring new opportunities. If industrial and commercial circles and relevant sectors in the two regions only make a concerted effort to cooperate, economic cooperation between the two regions will stride into a brand new historical period.

**Economic Cooperation Between the Two Regions Is Based on Mutual Benefit**

Economic cooperation between the two regions is based on the principle of mutual benefit and suits the natural blend required for economic development.

From a mainland perspective, in the beginning of reform and opening up, the favorable factors in China's efforts to develop the economy were mainly having abundant and cheap natural resources, resources of labor and land, and lenient policies. But they had a severe lack of funds, technology, management methods, and market information. The Chinese mainland urgently needed through Hong Kong to introduce construction funds, applicable advanced science and technology, and modern management methods, and obtain information on and channels to enter the world market.

From Hong Kong's perspective, in the late 1970s Hong Kong, after more than 30 years of postwar development, had become an important international finance, trade, shipping, tourist, and information service center for the Asia-Pacific region. Hong Kong's most important economic characteristic was to act as a link in the capitalist world economic system intimately connected with the

economy of the West. But the Hong Kong economy also was troubled by some disadvantageous factors such as a limited local market and high wages, land prices, and prices for various raw materials and supplementary materials that weakened the competitiveness of Hong Kong products on the international market. In addition, Hong Kong, because of numerous aspects including its location at the doorway to South China, the make up of its citizenry, and its culture and customs, had inseparable relations of origin with the mainland. When several Western countries were peering through the newly opened door to China, Hong Kong already had a rather thorough understanding of China's investment environment. Hong Kong industrial and commercial circles urgently hoped to fully utilize various cheap resources from the mainland to enhance the international competitiveness of their products.

From this it can be seen that economic cooperation of the two regions was formed from the advantages and mutual needs of each and complementary cooperation and mutual benefit were the solid and stable bases for the economic relations of the two regions.

**Current Structure of the Two Regions' Economic Cooperation**

The two regions' economic development having undergone more than 10 years of development, the present structure can be summarized as closely related and mutually dependent and rising or falling together. The mainland economy needs to use Hong Kong and the Hong Kong economy is even more inseparable from the mainland.

(1) Fully utilizing Hong Kong to serve the modernization of the mainland is an important measure in China's reform and opening up strategy. Hong Kong has played an important role in the past 13 years of Chinese economic development. Generally speaking: (a) Hong Kong has become the mainland's greatest trading partner and most important conduit for exports and source of foreign exchange income. (b) Hong Kong is the mainland's greatest financial base. (c) Hong Kong is a bridge and a link connecting economic and trade relations on the two sides of the strait. (d) Hong Kong is a springboard for the world's nations (especially Western nations) to enter the Chinese mainland. Several countries actively develop business on the Chinese mainland through their commercial organizations in Hong Kong.

(2) The Chinese mainland factor was the most important motivating force for the growth of the Hong Kong economy in the 1980s. Its positive influence was manifested as: (a) The mainland was Hong Kong's greatest trading partner and largest source of import and entrepot trade and the second largest export market for Hong Kong products. (b) The mainland was Hong Kong's largest overseas investor. According to most recent estimates, the mainland's direct investment in Hong Kong reached \$10 billion, exceeding United States investment and Japanese investment and third only to investment

by local Chinese and British investment. (c) Hong Kong obtains huge economic advantage from investment in the mainland. In the South China Pearl River Delta area alone 3 million workers are employed in enterprises for "three forms of import processing and compensation trade" or "three kinds of partially or wholly foreign owned" enterprises invested in by Hong Kong businesses. Hong Kong businesses save HK\$90 billion, the equivalent of 16 percent of Hong Kong's 1991 local gross national product, each year on the wages of this group of workers alone.

(3) As regards business make up, economic cooperation between the two regions now is mainly in the areas of trade and finance and investment, and trade relations between the two regions center on entrepot trade. The focal point of mainland participation in economic cooperation between the two regions is South China's Pearl River Delta region. Since 1991 economic cooperation between the two regions has exhibited some brand new characteristics, including mainly: (a) Expanding the businesses involved in cooperation between the two regions. Hong Kong investors' interest in the mainland has broadened to include key industries, real estate, finance, retail merchandise, large scale infrastructure, and some new, high technology industries. (b) The volume of cooperation has increased. In the past most of the cooperative development projects between the two regions were small projects with small investment and quick results. (c) Mainland regions participating in economic cooperation with Hong Kong have tended to shift to the north and spread out, moving from the south China area to several areas of east China, north China, and the northeast. (d) Forms of cooperation have diversified, from the single direct investment of the past to the present coexistence of direct investment and indirect investment, and the mainland's issuance of type-B stocks has caused a great stir with Hong Kong businesses.

#### Future Challenges and Opportunities

Cooperation between the two regions started with the needs of both sides economic interests and with changes in the economic situation in the mainland and Hong Kong as well as the international economic situation, future economic cooperation between the two regions will face a series of challenges:

(1) The former complementary form of cooperation will not be able to adapt to developments in the two regions' economic relations. In recent years, with the shift to the north of Hong Kong industries and improvements in the management and the quality of the work force of mainland enterprises, the actual basis for the form of simple complementary cooperation with "stores in the front and factories in the rear" will gradually disappear.

(2) The quality of products cooperatively produced by the two regions will be faced with more intense pressure from international competition. The labor intensive products cooperatively produced by the two regions will face competition on the international market from such

neighboring countries as Malaysia, Thailand, Indonesia, the Philippines, and Vietnam, and high value added, relatively capital and technology intensive products will receive strong competition from the three little dragons, Taiwan, South Korea, and Singapore.

(3) The tendency to regionalize and group international economy and trade and the rise of trade protectionism will squeeze the international trading area of Hong Kong as a free port.

(4) The economic ups and downs of Western economies as well as Western countries' political and economic policies toward China, including the United States most favored nation issue with China still will be an important element restricting the economic cooperation of the two regions.

Faced with the challenges described above, the economic cooperation of the two regions also will have quite a few opportunities:

(1) The political and economic stability and development of China will be a factor assuring the economic cooperation of the two regions and also will provide new opportunities for the economic cooperation of the two regions. In implementing the omnidirectional opening strategy, China will need even more to fully utilize Hong Kong's position as a multifunctional international economic center. This will inevitably provide Hong Kong's industrial and commercial circles with even more opportunities to enter the mainland market and invest in development. As China with realistic reform measures actively strives to restore its position as a treaty signatory country in comprehensive tariff and trade agreements, it will cause China's economic and trade systems to make great strides and will to a certain extent alleviate the trade frictions between China and Western countries and thereby create more favorable conditions for the development of the two regions' trade.

(2) In 1997 after Hong Kong returns to the sovereignty of China, economic cooperation between Hong Kong and the mainland will become the cooperative economic and trade relations of two independent customs districts within a single country, and based on the stipulations of the Hong Kong Basic Law, economic cooperation between the two regions will be facilitated even more.

(3) The tendency toward regionalization and grouping in the international economy and trade is not only a challenge to the economic cooperation of the two regions, but also will facilitate enhanced economic cooperation between Hong Kong and the mainland and will promote favorable opportunities for the economic unification of the South China region.

(4) In the latter half of the 1990s, the Western economy looks forward to recovery and the Southeast Asian region is expected to continue to be the most active region of economic growth in the world. This will provide a favorable external developmental environment for economic cooperation between the two regions.

**Basic Trends in the Development of Economic Cooperation Between the Two Regions**

The following situation will be exhibited in the basic trends of future economic cooperation between the two regions:

(1) The basic trend in future economic cooperation between the two regions will be to improve from complementary cooperation to structural cooperation. After several years of complementary cooperation, the economic interests of the mainland and Hong Kong have become closely linked and scattered individual short-term complementary projects no longer conform to the overall long-term interests of the two. By structural cooperation we mean that the two cooperate from their overall long-term interests with the goal of improving the international competitiveness of the cooperative products and rely on the role of market forces and policy coordination to achieve optimum combination of productive factors and equitable economic distribution. Structural cooperation consists of: (a) The two parties to the cooperation together selecting cooperative products with developmental prospects; (b) jointly developing internationally competitive products; (c) gradually extending the area of cooperation to large hard projects with overall equitable distribution such as cooperative development of energy sources, transportation, large infrastructures, and comprehensive development of parcels of land; (d) enhancing cooperation of the two sides in such soft projects as education, science and technology, information services, and building up economic development potential.

(2) Future mainland and Hong Kong economic cooperation still will be concentrated in the South China region and Guangdong, Fujian, and Hainan provinces and economic relations among Hong Kong, Macao, and Taiwan certainly will be greatly enhanced. We can look forward to the formation of a "South China Economic Zone"—unlike the regional economic blocks of the European Community and the Association of Southeast Asian Nations (ASEAN). The economic cooperation of the various regions within the zone will be mainly structural.

In the future economic cooperation between Hong Kong and other mainland regions obviously will be enhanced and the concentration of cooperative businesses could be extended to tertiary product areas such as financial services, real estate, retail merchandise, and fast foods, but it is expected that this type of cooperation will retain its scattered complementary cooperation characteristics.

(3) Hong Kong's important position as a transit port for China's external trade will be further enhanced. With the opening of mainland markets, export of Hong Kong products to the mainland will increase and Hong Kong's relevant function as an intermediary for cross-strait economic and trade relations and as a springboard for various countries to enter Chinese markets will be enhanced.

(4) Financial cooperation between the two regions will be stepped up. Hong Kong's position as an international financial center will not change and it will continue to be the mainland's greatest financial base and even more Hong Kong financial organizations will be involved in mainland financial markets.



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